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United States Court of Appeals

FOR THE DISTRICT OF COLUMBIA, [illegible]

No. 11247
STATE OF WISCONSIN AND PUBLIC SERVICE [illegible]
OF WISCONSIN, Petitioners
versus
FEDERAL POWER COMMISSION, [illegible]
PHILLIPS PETROLEUM COMPANY ET AL., [illegible]

No. 11248
CITY OF DETROIT, MICHIGAN, Petitioner
versus
FEDERAL POWER COMMISSION, [illegible]
PHILLIPS PETROLEUM COMPANY ET AL., [illegible]

No. 11249
CITY OF KANSAS CITY, MISSOURI, Petitioner
versus
FEDERAL POWER COMMISSION, [illegible]
PHILLIPS PETROLEUM COMPANY ET AL., [illegible]

No. 11250
CITY OF MILWAUKEE, WISCONSIN, a Municipal [illegible]
versus
FEDERAL POWER COM[illegible]
PHILLIPS PETROLEUM COM[illegible]

No. 11251
COUNTY OF WAYNE, MICHIGAN, [illegible]
versus
FEDERAL POWER COMMISSION, [illegible]
PHILLIPS PETROLEUM COMPANY ET AL., [illegible]

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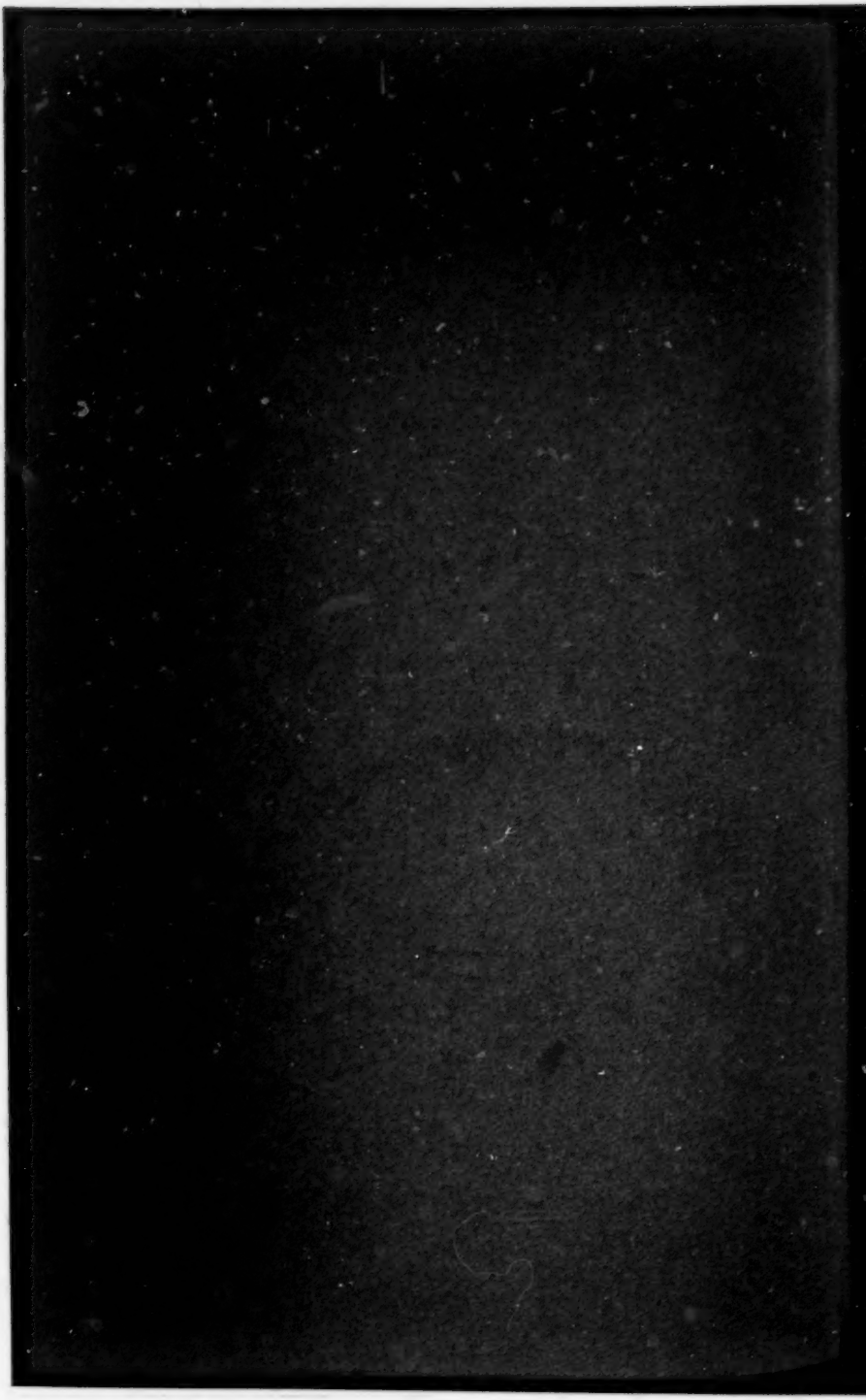

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United States Court of Appeals

FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11247

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11241

CITY OF DETROIT, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11242

CITY OF KANSAS CITY, MISSOURI, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11245

CITY OF MILWAUKEE, WISCONSIN, a Municipal Corporation, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11252

COUNTY OF WAYNE, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

Review of An Order of the Federal Power Commission

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JOINT AND SEVERAL PETITION OF STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN TO REVIEW ORDERS OF THE FEDERAL POWER COMMISSION IN ITS DOCKET G-1148

11,247

To the Honorable, the United States Court of Appeals for the District of Columbia Circuit:

The State of Wisconsin and Public Service Commission of Wisconsin file their joint and several petition under Section 19 (b) of the Natural Gas Act to review and set aside an order of the Federal Power Commission issued August 22, 1951 in connection with said Commission's Opinion No. 217, and the Commission's order denying the application of these petitioners for rehearing, which latter order was issued September 28, 1951, all of which was in a proceeding before said Commission entitled "In the Matter of Phillips Petroleum Company, Docket G-1148."

For their petition the State of Wisconsin and Public Service Commission of Wisconsin respectfully allege as follows:

1. Identity of Petitioners

(1) At all times herein mentioned the State of Wisconsin was and is one of the forty-eight sovereign states forming the United States of America. It appeared before the Federal Power Commission in the proceeding entitled "In the Matter of Phillips Petroleum Company, Docket G-1148" and it petitions and appears herein in its sovereign

capacity and by its agency, the Public Service Commission of Wisconsin, to protect a two-fold interest as follows: (a) as the representative of the consuming public which purchases natural gas in the State of Wisconsin from distributing companies located in such states, which companies in turn purchase said natural gas in the State of Wisconsin from Michigan-Wisconsin Pipe Line Company, which latter company in turn purchases its entire supply of said natural gas from Phillips Petroleum Company at a point in the State of Texas, and (b) as a user or consumer of natural gas purchased from a distributing company located in the State of Wisconsin (Madison Gas & Electric Company, Madison, Wisconsin), which distributing company purchases said gas from Michigan-Wisconsin Pipe Line Company as above stated, by virtue of its being the proprietor of certain public institutions, schools and buildings.

(2) The Public Service Commission of Wisconsin was at all times herein mentioned an agency of the State of Wisconsin created by and deriving its authority and powers from statutory grant by the Wisconsin Legislature. The authority and powers so granted the Public Service Commission of Wisconsin appear in Chapters 195 and 196 of the Wisconsin Statutes. Among other powers and authority given to said Commission is that which follows from Sections 195.01, 196.01, 196.02, 196.03, 196.20 and 196.37, Wisconsin Statutes, to regulate rates charged by and the adequacy of service furnished by public utilities located in the State of Wisconsin, including those which sell and deliver natural gas to the public for ultimate consumption for domestic, commercial, industrial or any other use, to the end that such rates shall be reasonable and just, and that such public utilities furnish reasonably adequate serv-

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ice and facilities to the public. That the Public Service Commission of Wisconsin is a "state commission" within the meaning of the term as used in Sections 2 (8), 13 and 15 of the Natural Gas Act and Section 1.8 of the General Rules and Regulations and Rules of Practice and Procedure of the Federal Power Commission.

2. Nature of Proceedings As to Which Review Is Sought

(3) By order dated October 28, 1948, issued October 29, 1948, pursuant to authority granted it by the Natural Gas Act, the Federal Power Commission instituted an investigation of the natural gas operations of Phillips Petroleum Company to determine:

(i) Whether it is a "natural-gas company" within the meaning of the Natural Gas Act; and

(ii) Whether, in connection with any transportation or sale of natural gas, subject to the jurisdiction of the Commission, any rates, charges, or classifications demanded, observed, charged, or collected, or any rules, regulations, practices or contracts affecting such rates, charges, or classifications are unjust, unreasonable, unduly discriminatory, or preferential.

(4) On February 9, 1950 the Federal Power Commission issued another order in which reference was made, among other things, to complaints filed by the City of Detroit and Public Service Commission of Wisconsin and the results of field investigations made by the staff of the Federal Power Commission, as to the relation of Phillips

Petroleum Company to a number of pipe line companies. In referring to Michigan-Wisconsin Pipe Line Company, the Commission said:

"As stated above, the present annual sales capacity of 56,575,000 Mcf is proposed to be increased to 125,195,000 Mcf and it appears from staff estimates that the annual cost to Michigan-Wisconsin of 125,195,000 Mcf of natural gas which Phillips will supply to Michigan-Wisconsin under the contract of December 11, 1945, as amended, and the two new contracts of December 1, 1949, would be increased approximately $5,000,000 annually over the cost under the original contract. Furthermore, such contracts contain other provisions which, upon becoming operative in the future, may result in further substantial increases in the cost of gas to be supplied Michigan-Wisconsin.

"Phillips has contracted to sell and is selling large volumes of natural gas from the Panhandle and Hugoton gas fields to Panhandle Eastern Pipe Line Company, Northern Natural Gas Company, Independent Natural Gas Company, and El Paso Natural Gas Company at various prices substantially lower than the base prices specified in its contracts with Michigan-Wisconsin.

"Wherefore, it appears to the Commission that:

"It is necessary and desirable in the public interest that a public hearing be held to determine all relevant facts and circumstances surrounding the natural gas operations of Phillips Petroleum Company to enable the Commission to determine (a) Whether Phillips Petroleum Company is a 'natural-gas company' within the meaning of the Natural Gas Act; (b) Whether in connection with any transportation or sale of natural gas subject to the jurisdiction of the Commission, in-

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cluding sales to Michigan-Wisconsin Pipe Line Company, any rates, charges, or classifications demanded, observed, charged, or collected by Phillips Petroleum Company, or any rules, regulations, practices, or contracts affecting such rates, charges, or classifications are unjust, unreasonable, unduly discriminatory or preferential.

"The Commission *orders*:

"(A) A public hearing be held commencing at 10 a. m. (CST) on March 20, 1950, in the Federal Court Room, U. S. Post Office Building, Bartlesville, Oklahoma, respecting all matters and issues set forth in this order and the Commission's order of investigation under date of October 28, 1948.

"(B) Interested State commissions may participate as provided by Sections 8 and 37 (f) [18 CFR 1.8 and 1.37 (f)] of the Commission's Rules of Practice and Procedure."

(5) After a number of adjournments the Federal Power Commission issued an order on February 28, 1951 setting the matter for hearing in Bartlesville, Oklahoma commencing April 3, 1951 at 10 a. m. Prior to said hearing a number of persons, including your petitioners, representing consumer interests, intervened in said proceeding, and are listed as follows:

Public Service Commission of Wisconsin

State of Wisconsin

City of Detroit, Michigan

County of Wayne, Michigan

City of Kansas City, Missouri

City of Milwaukee, Wisconsin

Michigan Public Service Commission

In addition there were other intervenors including the following:

State of New Mexico

State Corporation Commission, State of Kansas

Corporation Commission, State of Oklahoma

Railroad Commission of Texas

State of Texas

Oil and Gas Commission, State of Arkansas

Oil and Gas Board, State of Mississippi

Public Service Commission of West Virginia

Commissioner of Conservation, State of Louisiana

Texas County Land and Royalty Association

Texas Independent Producers and Royalty Owners Association

Certain Royalty Owners in Old Ocean Field Brasoria County, Texas

Old Ocean Royalty Owners

Independent Natural Gas Association of America

Port Neches Royalty Owners Association

(6) Prior to the hearing in Bartlesville, Oklahoma, on April 3, 1951, Phillips Petroleum Company filed a motion with the Federal Power Commission requesting it to amend its order of February 9, 1950 defining the issues so as to limit the issue to be considered at said hearing to a

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determination whether it was a "natural gas company" within the meaning of the Natural Gas Act.

(7) Upon the opening of the hearing in Bartlesville, Oklahoma on April 3, 1951, the presiding examiner made the following statement (Tr. 7-9):

> "* * * I want to announce that I have received from the Secretary of the Commission the following memorandum, and I quote:
>
> " 'March 30, 1951, Memorandum for: Presiding Examiner Marsh, Bureau of Law, Bureau of Accounts, Finance and Rates.
>
> " 'For your information, the following is an excerpt from the minutes of a meeting of the Commission held on March 29, 1951: "The Commission had before it the Motion to Limit Issues filed on March 27, 1951, by Phillips Petroleum Company in Docket No. G-1148, but decided to defer action thereon until the other parties to the proceeding have had the opportunity provided for by the Rules to file answers to said motion. Upon motion of Commissioner Draper, seconded by Commissioner Wimberly, the Commission (Commission Buchanan dissenting) directed that, in the meantime, the Examiner designated to preside at the hearing in said proceeding scheduled to commence on April 3, 1951, be instructed to confine the taking of testimony to Paragraph (A) (i) of the order of the Commission entered October 28, 1948, and issued October 29, 1948." Signed Leon M. Fuquay, Secretary.' That memorandum was accompanied by a memorandum of transmittal, which reads as follows:
>
> " 'Because of time limitations, we will not be able to serve notice of this action upon the participants in the proceeding. I will, therefore, apreciate it if you

will have it spread upon the record at the opening of the hearing.'"

Thereupon your petitioners, the staff of the Federal Power Commission, the Cities of Milwaukee, Kansas City and Detroit, and possibly others, filed objection to said motion with the Federal Power Commission. On April 17, 1951 the Federal Power Commission issued an order (Commissioner Buchanan dissenting) limiting the issue at said hearing to the so-called "jurisdictional question," i. e., whether Phillips Petroleum Company is a natural gas company within the meaning of the Natural Gas Act. That said order reads in part as follows:

> "Upon consideration of the motion to limit issues filed herein by Phillips on March 27, 1951, of the Commission's orders issued herein, and all of the foregoing, the Commission *finds*:
>
> "(1) Although the Commission by order has set forth the issues to be heard herein, the order in which such issues shall be heard has not been prescribed.
>
> "(2) Orderly procedure requires that the following issue, heretofore set forth in the Commission's orders issued herein, first be heard at the hearing now in progress, viz: Whether Phillips Petroleum Company is a 'natural-gas company' within the meaning of the Natural Gas Act.
>
> "(3) Orderly procedure requires, and it is in the public interest, that hearing be held upon and a determination made by the Commission of the issue of whether Phillips Petroleum Company is a 'natural-gas company'

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within the meaning of the Natural Gas Act, before hearing is held upon any other issue in this proceeding.

"(4) Hearing upon issues herein other than that set forth in paragraph (2) hereof should be held as soon as practicable after hearing upon said issue, at a time and place to be fixed by further order of the Commission.

"(5) The motion to limit issues filed by Phillips on March 27, 1951, should be granted to the extent hereinafter ordered, and in all other respects should be denied.

"The Commission *orders*:

"(A) The matters to be presented at the public hearing now in progress shall be only those relevant to the following issue set forth in the Commission's order of investigation issued October 29, 1948, to-wit: Whether Phillips Petroleum Company is a 'natural-gas company' within the meaning of the Natural Gas Act.

"(B) A public hearing he held upon the remaining issues set forth in the Commission's order of investigation issued October 29, 1948, at a time and place to be fixed by further order of the Commission.

"(C) The Motion to Limit Issues, filed herein by Phillips Petroleum Company on March 27, 1951, is granted to the extent herein ordered, and in all other respects is denied.

"By the Commission. Commissioner Buchanan dissenting."

(8) Following the completion of the hearing on the issue above stated, the so-called intermediate procedure provided for by the Rules of Practice and Procedure of the Federal Power Commission (see sec. 1.30 (c)) was dispensed with, and following the submission of briefs and oral argument before the Commission and order was issued by said Commission on August 22, 1951, based on alleged reasons stated in Opinion No. 217 and purported findings (Commissioner Buchanan dissenting and Commissioner Draper concurring in the result), which order reads as follows:

> "The Commission *orders*:
>
> "That the proceeding initiated by the Commission's order of October 28, 1948, in Docket No. G-1148 be, and the same hereby is, terminated.
>
> "By the Commission. Commissioner Draper concurring in the result. Commissioner Buchanan dissenting."

(9) Thereafter applications for rehearing from said Opinion and order were filed by the following parties on the dates specified:

Applicant	*Date*
State of Wisconsin and Public Service Commission of Wisconsin	September 17, 1951
City of Milwaukee, Wisconsin	September 12, 1951
City of Kansas City, Missouri	September 10, 1951
City of Detroit, Michigan	September 19, 1951
County of Wayne, Michigan	September 19, 1951

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On September 28, 1951 the Federal Power Commission issued an order (Commissioner Buchanan dissenting) denying each of said applications for rehearing.

3. Facts and Statutes Upon Which Jurisdiction Is Based

(10) The proceeding here is to review the aforesaid order of the Federal Power Commission issued August 22, 1951 (Commissioner Buchanan dissenting) and order issued September 28, 1951 denying the applications of your petitioners and the others above mentioned for rehearing. Jurisdiction of this court to review said orders is established by Section 19 (b) of the Natural Gas Act.

(11) The State of Wisconsin is aggrieved by the aforesaid orders of the Federal Power Commission by which it refuses to assume jurisdiction over Phillips Petroleum Company as a "natural gas company" as defined by Section 2 (6) of the Natural Gas Act, and particularly by its refusal to assume jurisdiction over its sales of natural gas to (a) Michigan-Wisconsin Pipe Line Company, (b) El Paso Natural Gas Company, (c) Panhandle Eastern Pipe Line Company, (d) Independent Natural Gas Company for sale to Northern Natural, and (e) Cities Service Gas Company. After taking delivery of said natural gas, said pipe line companies carry the gas in pipe lines across state lines to markets in states other than those where Phillips sells and delivers the gas to the Pipe Line Companies, where the gas in turn is sold and delivered by the Pipe Line Companies to others who in turn sell and distribute said gas to the consuming public for domestic, commercial, industrial and other uses. Phillips Petroleum Company

concedes, and the Federal Power Commission found, that the sale of natural gas by Phillips to the five Pipe Line Companies above mentioned are each a sale of natural gas in interstate commerce for resale for ultimate consumption for domestic, commercial, industrial or other use. More specifically, so far as the situation in Wisconsin is concerned, the Federal Power Commission by its orders refused to take jurisdiction over the sale of natural gas by Phillips Petroleum Company to Michigan - Wisconsin Pipe Line Company in the State of Texas (which Phillips Petroleum Company admits and the Federal Power Commission found was a sale of natural gas in interstate commerce for purposes of resale). The pipe line company then transports the natural gas so purchased in pipe lines to points in the State of Wisconsin (as well as in other states) where it in turn sells said natural gas to distributing companies. Said companies in turn sell and deliver gas to the public for ultimate public consumption for domestic, commercial, industrial or other use in the State of Wisconsin as well as Michigan and other states. Phillips Petroleum Company is the sole supplier of all natural gas transported by Michigan-Wisconsin Pipe Line Company (delivering up to 343,000 Mcf per day) and said pipe line company in turn is the sole supplier of natural gas to local distributing companies serving the Cities of Madison (Madison Gas and Electric Company) and Milwaukee (Milwaukee Gas Light Company), the two principal cities in Wisconsin, as well as those serving other communities along the shore of Lake Michigan and the Fox River Valley Area, the principal industrial areas of the state. Consumers in such areas form a substantial portion of the population of the State of Wisconsin.

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(12) The price which Michigan-Wisconsin Pipe Line Company pays Phillips Petroleum Company becomes a factor in the amount the ultimate consumer in Wisconsin must pay for natural gas in said state.

(13) The State of Wisconsin here petitions and appears in this court in its sovereign capacity to represent and protect as *parens patriae* the interest of the consuming public in Wisconsin which uses natural gas transported into the state purchased by Michigan-Wisconsin Pipe Line Company. *Georgia v. Pennsylvania Railroad Co.*, 324 U. S. 439.

(14) The State of Wisconsin is also the proprietor of institutions, schools and buildings and by reason thereof is itself a consumer of natural gas purchased from Madison Gas and Electric Company (among other companies) which in turn purchases its entire supply of natural gas from Michigan-Wisconsin Pipe Line Company. In the period from December, 1949, when natural gas was first introduced in Madison, Wisconsin, through March 31, 1951, the State of Wisconsin purchased the following quantities of natural gas from Madison Gas and Electric Company:

	Amount of Gas	*Cost*
State of Wisconsin, for Executive Mansion	1,472.8 Mcf	$ 1,558.10
State of Wisconsin, for University of Wisconsin	12,482.7 Mcf	$13,479.84

(15) The price which Phillips Petroleum Company charges Michigan-Wisconsin Pipe Line Company was and is excessive and discriminatory. For the year ended December 31, 1950, the natural gas department of Phillips

Petroleum Company earned a return in excess of 16.5% on a rate base consisting of a net investment as per its books plus an allowance for materials and supplies and working capital. This is shown by Exhibits 3 to 7 prepared and offered by the staff of the Federal Power Commission in the proceeding before the Commission in said Docket G-1148, which were excluded from the record by the presiding examiner on the alleged ground they were not material to the jurisdictional issue. Said exhibits were later adopted by Wisconsin as its own exhibits and an offer of proof made (Tr. 5763) on the ground they were material to the jurisdictional issue as showing the impact of an unregulated price between Phillips and the pipe line companies upon the ultimate consumer, and the latter's interest in and need for regulation. See Section 1 (a), Natural Gas Act, and *Interstate Natural Gas Co. v. Federal Power Commission,* 331 U. S. 682, 693. The record in Docket G-1148 further shows that the original contract of December 11, 1945 provided that Phillips supply Michigan-Wisconsin Pipe Line Company up to specified quantities of gas at 5-cents Mcf for the first 5 years beginning July 1, 1948. Then by amendment of August 9, 1948 the price was increased to 8½-cents Mcf with a 1-cent increase for each successive 5-year period. Said amendment included an escalator clause which would bring increased revenue to the company in an amount ranging between $15 and $20 million over the life of the contract. There were also subsequent amendments, the effect of which nearly doubled the cost of gas to Michigan-Wisconsin. Prior to the amendment of August 9, 1948 Phillips expected to realize a return of 9.5%, whereas after the amendment the expected return would be 13.76%. The record in Docket G-1148 also shows

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that as part of its operations Phillips "farmed out" 100 square miles of proven acreage under a lease of such acreage to Tascosa Gas Company (Exhibit 60). By this "farm-out" Tascosa drills the wells, and resells the gas to Phillips at a price which produces a handsome profit to Tascosa. Thus we have a superfluous middleman in the picture also taking its profit, which, if eliminated, would decrease the amount which Phillips charges said pipe line companies and still permit a fair return.

(16) Undue discrimination as to the price Phillips charges Michigan-Wisconsin Pipe Line Company, as compared to the other pipe line companies it sells gas to, is shown by the figures taken from Exhibit 54 in Docket G-1148 as follows:

	Gasoline Plant	*1950 Average Price Mcf.*
Michigan-Wisconsin	Sherman	8.17 cents
Panhandle Eastern	Hansford	4.03 "
	Borger Residue System	4.03 "
El Paso Natural Gas Co.	Crane	4.69 "
	Eunice	3.81 "
	Fullerton	4.07 "
	Goldsmith	4.92 "
	Borger Residue System	5.05 "
Independent Natural Gas Co.	Pampa Residue System	2.45 "

The average price on the total sales of residue gas by Phillips for the year 1950 was 5.38-cents Mcf. Michigan-Wisconsin paid 8.17-cents.

(17) The State of Wisconsin in its sovereign capacity as *parens patriae* for consumers of natural gas in Wisconsin and also as a consumer of natural gas itself is aggrieved by the failure of the Federal Power Commission, in issuing the orders previously mentioned, to determine that it has jurisdiction over Phillips Petroleum Company as a "natural gas company" as defined in Section 2 (b) of the Natural Gas Act; and is further aggrieved by the failure of said Commission to take jurisdiction over Phillips' sale of natural gas to the pipe line companies previously mentioned and by said Commission's failure to regulate the price or rate charged by Phillips for such gas, and particularly the sale to Michigan-Wisconsin Pipe Line Company. By such failure to take jurisdiction, there is precluded any possibility of (1) securing a reduction in the excessive rates and charges which Phillips exacts from Michigan-Wisconsin and the other named pipe line companies; and (2) effecting an elimination of the unduly discriminatory rate or charge which now exists as between the rates or charges exacted by Phillips from Michigan-Wisconsin Pipe Line Company as compared to the other pipe line companies.

(18) The Public Service Commission of Wisconsin is an agency of the State of Wisconsin. By statutes enacted by the legislature of the State of Wisconsin (Chapters 195 and 196, Wisconsin Statutes), said Commission is given power and authority to regulate the rates and charges exacted by and the service rendered by public utilities operating in the State of Wisconsin, and specifically has jurisdiction

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given by Sections 196.01 (1), 196.03 (1), 196.20 and 196.37 to regulate the rates and charges imposed by public utilities in Wisconsin for sale of natural gas to consumers within said state, to the end that rates and charges for sale of natural gas must be "just and reasonable" and the service rendered by public utilities selling natural gas shall be reasonably adequate. As such it is a "state commission" as defined by Section 2(8) of the Natural Gas Act and has the right (as also does the State of Wisconsin) to file a complaint with the Federal Power Commission against the rate or charge of any natural gas company in connection with the transportation or sale of natural gas. See Sections 5 (a), 4 (e), 13. As a state commission it is authorized to intervene in a proceeding before the Federal Power Commission as a matter of right by Section 1.8 of the Federal Power Commission Rules of Practice and Procedure. See Title 15 U. S. C. A. §717n.

(19) The Public Service Commission of Wisconsin herein petitions and appears with the State of Wisconsin as a representative of the consumers of natural gas in Wisconsin served by distributing companies which receive gas from Michigan-Wisconsin Pipe Line Company, and also in its capacity as a state regulatory agency having the jurisdiction above mentioned. Said Commission is aggrieved by the orders of the Federal Power Commission previously mentioned in the same manner alleged in paragraph numbered 17, *supra*. Said Commission is further aggrieved by reason of the fact that the refusal of the Federal Power Commission to accept such jurisdiction establishes a "gap" in the regulatory scheme (the price at the city gate being regulated by Federal Power Commission and to the ultimate consumer in Wisconsin by the Public Service Com-

mission of Wisconsin) which impairs and prejudices the regulatory effort by the Public Service Commission of Wisconsin. Excessive and discriminatory charges at that stage, i. e., the sale by Phillips to the pipe line company, become perpetuated in the ultimate cost (see *Interstate Natural Gas Co. v. Federal Power Commission*, 331 U. S. 682, 693) and necesarily compel the Public Service Commission of Wisconsin to fix a rate to the ultimate consumer which is higher than would or should otherwise be required.

(20) The status of the State of Wisconsin and the Public Service Commission as an aggrieved party also is recognized in Section 19 (a) of the Natural Gas Act which reads as follows:

> "Any person, State, municipality, or State commission aggrieved by an order issued by the Commission in a proceeding under this act to which such person, State, municipality or State Commission is a party may apply for a rehearing within thirty days after the issuance of such order. * * *"

(21) The foregoing, taken in conjunction with the provisions authorizing *inter alia* the filing of complaints by any state, state commission, or municipality (Sections 5 (a), 4 (e) and 13), evidences the intent of Congress that a state regulatory commission (as well as the state or any municipality) is aggrieved as a representative of the consuming public, when, by reason of a ruling of the Federal Power Commission, said consumers are deprived of the benefit of rate reduction and the establishment of a just and reasonable and nondiscriminatory rate. A state regulatory commission is not ordinarily a consumer of natural gas. The possibility that it may be aggrieved is

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definitely recognized in Section 19 (a). Because of the unlikelihood of a state commission being a consumer of natural gas, it is plain it must be aggrieved in the respects above mentioned. See *Federal Communications Commission v. Sanders Radio Station*, 309 U. S. 470; *Scripps-Howard Radio Inc. v. Federal Communications Commission*, 316 U. S. 4; Associated Industries v. Ickes, 134 F. 2d 694 (C. C. A. 2), vacated and remanded on other grounds, 320 U. S. 707.

4. The Relief Prayed

(22) The relief prayed by your petitioners herein is that the aforesaid order of the Federal Power Commission in its Docket G-1148 issued August 22, 1951, and the order dated September 28, 1951 denying the applications of petitioners and others for rehearing, be set aside in their entirety.

5. The Points Upon Which Petitioners Intend to Rely

(23) The points upon which the State of Wisconsin and Public Service Commission of Wisconsin intend to rely in prosecution of their petition for review in this court are those stated in their joint application and petition for rehearing duly and timely filed with the Federal Power Commission, which will be part of the record which will be filed and certified with the court as provided in Section 19 (b) of the Natural Gas Act, which application and petition for rehearing is incorporated into this petition by reference with the same force and effect as if physically included herein. A concise statement of said points is as follows:

I.

PHILLIPS PETROLEUM WAS AND IS A NATURAL GAS COMPANY AS DEFINED IN SECTION 2 (6) OF THE NATURAL GAS ACT, AND THE FEDERAL POWER COMMISSION ERRED IN CONCLUDING CONTRARYWISE

1. Phillips Petroleum Company admits, and the Federal Power Commission correctly states in its Opinion No. 217, that sales of natural gas by Phillips Petroleum Company to the five pipe line companies involved are sales of natural gas in interstate commerce for purpose of resale for ultimate public consumption for domestic, commercial, industrial or any other use.

2. The Federal Power Commission also correctly found that the movement of natural gas by Phillips Petroleum Company to the points of sale to the five pipe line companies involved constitutes transportation of natural gas in interstate commerce as a matter of constitutional law.

3. Such sales and transportation are each subject to Federal Power Commission jurisdiction by reason of the provisions of Section 1 (b) of the Natural Gas Act. Existence of either such sales or such transportation makes Phillips Petroleum Company a natural gas company as defined in Section 2 (6) of the Natural Gas Act.

a. Section 1 (b) applies to three separate things:

(1) The transportation of natural gas in interstate commerce.

(2) Its sale in interstate commerce for resale.

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(3) Natural gas companies engaged in such transportation or sale.

Transportation and sale are viewed as separate subjects of regulation. They have independent and equally important places in the Act. The Federal Power Commission erred as a matter of law in failing to find that by virtue of the foregoing premises Phillips is a "natural gas company" and subject to the jurisdiction of the Commission in the respects provided in the Natural Gas Act.

II.

AS A MATTER OF LAW THE SALES IN QUESTION ARE NOT PART OF "PRODUCTION OR GATHERING" WITHIN THE MEANING OF SECTION 1 (b) OF THE NATURAL GAS ACT, AND THE FEDERAL POWER COMMISSION ERRED AS A MATTER OF LAW IN CONCLUDING TO THE CONTRARY

1. The above proposition is established beyond all doubt by the decisions of the Federal Power Commission, the Court of Appeals for the Fifth Circuit, and the United States Supreme Court in the *Interstate Case. In the Matter of Interstate Natural Gas Co. v. Federal Power Commission,* D. C.) 127 F. 2d 153, hearing denied F. 2d 157, certiorari *Federal Power Commission,* 331 U. S. 682.

2. All hold as a matter of law the sales of natural gas in interstate commerce for purpose of resale are not included in the phrase "production or gathering" contained in Section 1 (b). The same proposition follows from *Peoples*

Natural Gas Co. v. Federal Power Commission, (U. S. App. D. C.) 127 F. 2d 153, hearing denied 127 F. 2d 157, certiorari denied 316 U. S. 700.

3. The basic purpose of the Natural Gas Act was to fill the "gap" created by the decisions of the Supreme Court in *Missouri v. Kansas Natural Gas Co.,* 265 U. S. 298, and *Public Utilities Commission v. Attleboro Steam & Electric Co.,* 273 U. S. 83, and *State Corp. Commission v. Wichita Gas Co.,* 290 U. S. 561, to the effect that the states could not constitutionally regulate sales of wholesale quantities of natural gas (not local in character) at interstate commerce for purposes of resale even in the absence of congressional action.

4. As applied here, this means that the sales of natural gas by Phillips Petroleum Company to the five pipe line companies (i. e., Michigan-Wisconsin Pipe Line Company, El Paso Natural Gas Company, Panhandle Eastern Pipe Line Company, Independent Natural Gas Company for Northern Natural Gas Company, and Cities Service Gas Company) for purposes of resale (involving as they do enormous quantities of gas and being the sole supplier of gas for distributing companies located in distant states), are transactions national, and not local, in character, and hence beyond the constitutional power of the state's regulation even in the absence of congressional action.

5. Because the states cannot constitutionally regulate the sales by Phillips Petroleum Company to the five pipe line companies, such sales cannot fall within the language of "production or gathering" as it appears in Section 1 (b), and the Supreme Court so held in *Interstate Natural Gas Company v. Federal Power Commission,* 331 U. S. 682, 690.

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6. The case of *Cities Service Gas Co. v. Peerless Oil & Gas Co.*, 340 U. S. 179, cannot in any way be construed as holding that the states can now constitutionally regulate the sales by Phillips in interstate commerce to the five pipe line companies involved here for purposes of resale.

III.

ALTHOUGH UNNECESSARY SO TO CONTEND (SINCE THE QUESTION MUST BE DECIDED ADVERSELY TO THE COMMISSION'S DETERMINATION THAT THE SALES TO THE FIVE PIPE LINE COMPANIES ARE NOT PART OF "PRODUCTION OR GATHERING" AS A MATTER OF LAW), THE COMMISSION'S DETERMINATION THAT SUCH SALES ARE PART OF "PRODUCTION OR GATHERING" IS CONTRARY TO SUBSTANTIAL EVIDENCE IN THE RECORD

1. The question as to what is included within the term "production or gathering" as used in Section 1 (b) depends upon the intention of Congress in enacting this section. As shown under previous subheads, the sales by Phillips to the five pipe line companies cannot be included in the term "production or gathering" as a matter of law.

2. In any event, the question is one of application of a legal standard and cannot be concluded by expert testimony.

3. Opinion evidence that is inconsistent with undisputed facts or with reason and common sense is not adequate to meet the requirements of "substantial evidence."

4. The testimony of witnesses A. R. Rippel and George P. Bunn, employes of Phillips Petroleum Company, to the effect that the sales to the five pipe line companies are included within "production or gathering" are (a) inconsistent with undisputed facts and (b) contrary to reason and common sense, and are inadequate and cannot be considered as substantial evidence.

IV.

THE DETERMINATION OF THE FEDERAL POWER COMMISSION THAT THE SALES BY THE PHILLIPS PETROLEUM COMPANY TO THE FIVE PIPE LINE COMPANIES ARE SO CLOSELY CONNECTED WITH THE LOCAL INCIDENTS OF "PRODUCTION OR GATHERING" AS TO RENDER RATE REGULATION BY IT INCONSISTENT WITH OR A SUBSTANTIAL INFERENCE WITH THE EXERCISE BY THE STATES OF OKLAHOMA, TEXAS AND NEW MEXICO OF THEIR REGULATORY FUNCTIONS IS ERRONEOUS AS A MATTER OF LAW

1. In arriving at the above conclusion the Federal Power Commission erroneously assumes that the states could in any event regulate the sales in question. This is not true as a matter of constitutional law.

The language of the supreme court at p. 690 of 331 U. S. referring to "sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with

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the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach." It does not and cannot refer to the sales by Phillips to the five pipe line companies, since simple logic decrees that the court in using such language could only mean sales which could constitutionally be regulated by the states.

2. "Local incidents" of the process of "production or gathering" are not included within sales of natural gas in interstate commerce for purposes of resale. They are wholly different concepts.

3. If Federal Power Commission regulation can be successfully denied on ground of interference with state regulation in the present case, the Federal Power Commission is ousted of jurisdiction in all cases. Such a claim would be contrary to decisions of the supreme court sustaining Federal Power Commission jurisdiction in cases where it is asserted that it does not exist by virtue of interference with state regulatory efforts. *Colorado Interstate Gas Co. v. Federal Power Commission,* 324 U. S. 581; *Canadian River Gas Co. v. Federal Power Commission,* 324 U. S. 581; *Federal Power Commission v. Hope Natural Gas Co.,* 320 U. S. 591; *Interstate Natural Gas Co. v. Federal Power Commission,* 331 U. S. 682, same case C. C. A., 156 F. 2d 949.

V.

ALTHOUGH UNNECESSARY TO SO CONTEND (BECAUSE THE FEDERAL POWER COMMISSION'S DETERMINATION THAT ITS JURISDICTION OVER SALE BY PHILLIPS TO THE FIVE PIPE LINE COMPANIES WILL INTERFERE WITH STATE REGULATORY EFFORTS IS ERRONEOUS AS A MATTER OF LAW), THE DETERMINATION OF THE COMMISSION THAT ITS ASSUMPTION OF JURISDICTION OVER SUCH SALES WOULD INTERFERE WITH STATE REGULATORY EFFORTS IS CONTRARY TO SUBSTANTIAL EVIDENCE IN THE RECORD

1. The Federal Power Commission fails to state valid reasons for a purported finding or conclusion that its assumption of jurisdiction over the sale by Phillips to the five pipe line companies will interfere with state regulatory efforts, and also fails to refer to any facts on which such finding could be based. The dissenting opinion of Commissioner Buchanan correctly suggests that the Commission's determination rests upon bare assertion—"their own *ipsi dixit.*"

2. All witnesses who testified upon the subject of alleged conflict between Federal Power Commission jurisdiction over the sales in question and interference with state regulatory efforts were unable to point out any actual conflict. The only mention of conflict was based upon hypothetical and assumed situations, none of which were shown to exist.

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3. The evidence shows without question that the Federal Power Commission has taken jurisdiction over a number of companies which engage in substantial field operations similar to those carried on by Phillips Petroleum Company which are also subject to jurisdiction by regulatory agencies of the States of Texas, Oklahoma and New Mexico, and no conflict was shown to exist between Federal Power Commission jurisdiction in those cases and that of regulatory commissions.

VI.

THE ATTEMPT OF THE FEDERAL POWER COMMISSION TO CONSTRUE SEC. 1 (b) OF THE ACT BY RESORT TO LEGISLATIVE HISTORY, AND BY REVIEW OF ADMINISTRATIVE AND JUDICIAL DECISIONS WAS ERROR AS A MATTER OF LAW, BECAUSE A STATUTE CLEAR AND UNAMBIGUOUS ON ITS FACE NEED NOT, AND AS A MATTER OF LAW, CANNOT BE "INTERPRETED" BY AN ADMINISTRATIVE AGENCY TO CONTRADICT THE CLEAR LANGUAGE OF THE STATUTE

A. Resort to Legislative History was Erroneous as Matter of Law

In any event, if the legislative history of the Natural Gas Act in any way forms part of the conclusions reached by the Federal Power Commission in the instant case, the Commission has erred in so interpreting such history. The legislative history clearly supports the proposition that the basic purpose of the Natural Gas Act was to fill the "gap"

created by decisions of the supreme court above mentioned and to make the sales of natural gas for purposes of resale of the kind made by Phillips Petroleum Company to the five pipe line companies here involved subject to Federal Power Commission regulation.

B. Resort to "Administrative Actions" Was Erroneous as Matter of Law

While it is not clear what purpose the Commission had in so doing, we submit that if such purpose was to establish an administrative interpretation claimed to be binding or persuasive in the present case, the Commission has erred.

1. The rule of administrative interpretation is one of many qualifications and in many instances the courts refuse to follow it. In any event, it can have no application here because (a) the material portion of the Natural Gas Act is plain and unambiguous and not subject to construction, and (b) the course followed by the Federal Power Commission in administering the portion of the Natural Gas Act material here does not meet the requirements that to make the rule applicable the administrative construction, first, must not be contrary to the language of the statutes or erroneous and, second, must be uniform and of long standing.

C. Review of Judicial Decisions Was Error as Matter of Law

In support of its several erroneous findings of fact and conclusions of law, the Federal Power Commission, in its

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Opinion No. 217, has presumed to review the several judicial decisions rendered in cases involving Sec. 1 (b) of the Natural Gas Act, and to apply to the facts of the instant proceeding its erroneous concept of the meaning and effect of said decisions. In so doing said Commission erred in failing to conclude that said decisions compel the legal conclusion that Phillips' sales of natural gas to the five pipe line companies and the transportation of natural gas in interstate commerce are not part of production and gathering within the meaning of Sec. 1(b).

VII.

THE COMMISSION HAS ERRED IN FAILING TO MAKE PROPER FINDINGS OF FACT AND CONCLUSIONS OF LAW ACCORDING TO STANDARDS LAID DOWN BY CONGRESS, [15 U. S. C. A. §717r (b), 4 F. C. A. title 15, 717r (b)] AS INTERPRETED BY THE UNITED STATES SUPREME COURT

The failure to make proper findings of fact in the respects specified herein, in and of itself constitutes error. *Colorado-Wyoming Gas Co. v. F. P. C.*, 324 U. S. 626, 634.

VIII.

THE COMMISSION ERRED IN ITS RULING LIMITING THE ISSUE TO THE SO-CALLED JURISDICTONAL ISSUE

The Commission erred in directing its Trial Examiner by its order of April 6, 1951, to exclude all evidence to

determine whether any of Phillips' rates, subject to the Commission's jurisdiction, are unjust or unreasonable, and further erred in approving the exclusion of substantial evidence offered by the staff of the Commission at such hearing showing that Phillips' rates are in fact unjust and unreasonable, because such action of the Commission was arbitrary and capricious, contrary to law and in violation of the express terms of the Natural Gas Act.

WHEREFORE, your petitioners, jointly and severally, pray that the court review the orders of the Federal Power Commission in the latter's Docket G-1148 which are complained of, and that the court set aside such orders in their entirety.

Dated at Madison, Wisconsin, this 13th day of November, 1951.

STATE OF WISCONSIN

By WALTER J. KOHLER, JR. /s/
Walter J. Kohler, Jr., Governor

VERNON W. THOMSON /s/
Vernon W. Thomson, Attorney General, and Its Attorney of Record.

VERNON W. THOMSON,
Attorney General,

STEWART G. HONECK,
Deputy Attorney General,

Attorneys for State of Wisconsin.

P. O. Address:
State Capitol,
Madison, Wisconsin

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PUBLIC SERVICE COMMISSION OF WISCONSIN

JOHN C. DOERFER /s/
John C. Doerfer, Commissioner

W. F. WHITNEY /s/
W. F. Whitney, Commissioner

JAMES R. DURFEE /s/
James R. Durfee, Commissioner

WILLIAM E. TORKELSON
Attorney for Public Service Commission of Wisconsin

P. O. Address:
1 West Wilson Street,
Madison, Wisconsin

STATE OF WISCONSIN }
COUNTY OF DANE } ss.

WALTER J. KOHLER, Jr., being first duly sworn on oath says that he is the duly elected, qualified and acting Governor of the State of Wisconsin; that he makes this verification in behalf of said State, being duly authorized so to do; that he has read the foregoing petition and knows the contents thereof and believes it to be true; that the reason that this verification is made by affiant and not by the State of Wisconsin is that said State is one of the sovereign states of the United States and can act only through its duly authorized agents and officers.

WALTER J. KOHLER, JR. /s/
Walter J. Kohler, Jr.

Subscribed and sworn to before me this
13th day of November, A. D., 1951.

ELSIE ELLEFSON /s/
Notary Public, Dane Co., Wisconsin
My comm. expires April 27, 1952.
(NOTARIAL SEAL)

STATE OF WISCONSIN }
COUNTY OF DANE } ss.

VERNON W. THOMSON, being first duly sworn on oath says that he is the duly elected, qualified and acting Attorney General of the State of Wisconsin; that he makes this verification in behalf of said State, being duly authorized so to do; that he has read the foregoing petition and knows the contents thereof and believes it to be true; that the reason that this verification is made by affiant and not by the State of Wisconsin is that said State is one of the sovereign states of the United States and can act only through its duly authorized agents and officers.

VERNON W. THOMSON /s/
Vernon W. Thomson

Subscribed and sworn to before me this
13th day of November, A. D., 1951.

IONA FARRELL /s/
Notary Public, Dane Co., Wisconsin
My comm. expires March 1, 1953.
(NOTARIAL SEAL)

BLEED THROUGH

STATE OF WISCONSIN)
COUNTY OF DANE) ss.

JOHN C. DOERFER, W. F. WHITNEY and JAMES R. DURFEE, being each duly sworn on oath says for himself that he is a duly appointed, qualified and acting Commissioner of the Public Service Commission of Wisconsin; that he has read the foregoing petition, knows the contents thereof, and believes the same to be true.

JOHN C. DOERFER /s/
John C. Doerfer

W. F. WHITNEY /s/
W. F. Whitney

JAMES R. DURFEE /s/
James R. Durfee

Subscribed and sworn to before me this
13th day of November, A. D., 1951.

FREDA MILES /s/
Notary Public, Dane Co., Wisconsin
My comm. expires October 2, 1955.
(NOTARIAL SEAL)

PETITION OF CITY OF MILWAUKEE TO REVIEW AN ORDER OF THE FEDERAL POWER COMMISSION IN ITS DOCKET NO. G-1148 RELATING TO AN OPINION AND ORDER ENTERED BY THE COMMISSION ON AUGUST 16, 1951 (ORDER NO. 217, ISSUED AUGUST 22, 1951)

11,245

To the Honorable, the Judges of the United States Court of Appeals for the District of Columbia:

The City of Milwaukee files its petition under Section 19 of the Natural Gas Act to review and set aside an order of the Federal Power Commission dated August 16, 1951, and issued by said Federal Power Commission on August 22, 1951, in connection with the Federal Power Commission's opinion No. 217 and the Federal Power Commission's order terminating the proceedings initiated by said Commission's order of October 28, 1948, and from an order of the Federal Power Commission denying the petition and application of the above named petitioner, the City of Milwaukee, for rehearing, which latter order was dated September 22, 1951, and issued by the Federal Power Commission on September 28, 1951, all of which were and occurred in a proceedings entitled "In the Matter of Phillips Petroleum Company," Docket No. G-1148.

For its petition, the City of Milwaukee respectfully alleges as follows:

1. Identity of Petitioner

That at all times hereinafter mentioned, the City of Milwaukee was and now is a municipal corporation organ-

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ized and existing under and by virtue of the laws of the State of Wisconsin; that the City of Milwaukee derives its powers from the State of Wisconsin and from the acts of the Legislature of such State; that among its powers it has a right to be represented by counsel in matters which involve the public interest; that it has a population of 632,651.

That the City of Milwaukee is a large purchaser of natural gas from the Milwaukee Gas Light Company, a local public utility; that such gas is consumed and used by the City of Milwaukee, and that the City of Milwaukee pays a consideration therefor to the Milwaukee Gas Light Company; that the rates of the Milwaukee Gas Light Company are in some part determined by the rates charged by Phillips Petroleum Company; that a decrease in the rates charged by Phillips Petroleum Company to the Michigan-Wisconsin Pipe Line Company may directly affect the rate to the City of Milwaukee; that the failure to regulate rates by the Federal Power Commission, therefore, has an effect upon the price of natural gas to the City of Milwaukee; that under the provisions of the Natural Gas Act (52 Stat. 833; title 15 U. S. C. 717-717W), Section 2 (3) thereof, a "municipality" is defined to mean a city; that a municipality under the provisions of Section 5 (a) of the Natural Gas Act may file a complaint with the Federal Power Commission respecting any rate, charge, or classification demanded, charged, or collected by any natural gas company in connection with any transportation or sale of natural gas, subject to the jurisdiction of the Commission.

That under the provisions of Section 13 of the Natural Gas Act, a municipality complaining of anything done or

omitted to be done by any natural gas company in contravention of the provisions of the Natural Gas Act may apply to the Federal Power Commission by petition; that the City of Milwaukee did properly intervene in the proceedings before the Federal Power Commission in the matter of Phillips Petroleum Company, Docket No. G-1148.

That as a further basis of interest in the above entitled proceedings and in the proceedings had before the Federal Power Commission, the City of Milwaukee demonstrates that it has many thousands of inhabitants daily purchasing natural gas from the Milwaukee Gas Light Company, a local utility, which utility purchases its gas from the Michigan-Wisconsin Pipe Line Company, the latter purchasing its gas from the Phillips Petroleum Company; that the public residing within the boundaries of the City of Milwaukee is affected by the rates charged by Phillips Petroleum Company, and that any decrease or increase in rates tends to affect the ultimate price of natural gas to the many thousands of consumers residing within the City of Milwaukee as aforesaid.

2. Nature of Proceedings As to Which Review is Sought

That on August 22, 1951, the Federal Power Commission, hereinafter referred to as the "Commission," issued an order in Docket No. G-1148, entitled "In the Matter of Phillips Petroleum Company," in which said Commission ordered as follows:

> "That the proceeding initiated by the Commission's order of October 28, 1948, in Docket No. G-1148 be, and the same hereby is, terminated.";

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that said Commission found in said proceedings as follows:

"(1) Phillips Petroleum Company is engaged in the 'production and gathering' of natural gas within the meaning of Section 1(b) of the Natural Gas Act.

"(2) Phillips' movement of gas in interstate commerce and its sales thereof for resale in interstate commerce, together with its processing operations, all constitute a part of its gathering business, so that such movement, processing, and sales come within the exemption of production and gathering in Section 1(b) of the Act.

"(3) Phillips Petroleum Company is not a 'natural-gas company' within the meaning of Sections 1(b) or 2(6) of the Natural Gas Act.";

that the City of Milwaukee properly and duly intervened in said proceedings before said Commission as aforesaid, and was allowed to intervene by action of said Commission; and that the City of Milwaukee has a vital and real interest in the proceedings and is vitally affected by the determination, ruling, and order of said Commission, and feels itself aggrieved thereby; that contrary to the provisions of law said Commission refused to accept jurisdiction of the subject matter of the proceedings in the matter of Phillips Petroleum Company, Docket No. G-1148, hereinbefore referred to.

That on August 22, 1951, as aforesaid, said Commission issued its opinion, No. 217, and its order hereinbefore referred to, and made the findings hereinbefore set forth; that the City of Milwaukee filed timely application and petition for rehearing as is provided for by the provisions of the Natural Gas Act, and that on September 28, 1951,

with respect to such application and petition, said Commission ruled as follows:

"(1) No facts and no principles of law have been presented in said applications or any of them which either were not fully considered by the Commission before it entered such opinion and order, or, having now been considered, justify a reversal or modification of the Commission's opinion and order.

"(2) Good cause exists for denying said applications."

3. Facts and Statutes Upon Which Venue is Based

That venue is established by Section 19(b) of the Natural Gas Act, which provides that any party to a proceeding under the Natural Gas Act aggrieved by an order issued by the Commission in such proceeding may obtain a review of such order in the United States Court of Appeals for the District of Columbia by filing in such court within sixty (60) days after the order of the Commission, upon application for rehearing, and upon written petition praying that the order of the Commission be modified or set aside in whole or in part; that the City of Milwaukee feels itself aggrieved by the aforesaid order of the Commission, and that it therefore seeks a review of such order pursuant to said Act.

4. Relief Prayed For

Relief prayed for by your petitioner herein is that the aforesaid order of said Commission in Docket No. G-1148, dated August 16, 1951, and issued by the Commission on

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August 22, 1951, denying said Commission has jurisdiction under the Natural Gas Act in the aforesaid proceedings, and the order of said Commission of September 27, 1951, issued September 28, 1951, in which said Commission denied the application and petition of the City of Milwaukee, for rehearing, be set aside in their entirety as being contrary to law.

5. The Points Upon Which Petitioner Intends to Rely

The points upon which the City of Milwaukee intends to rely in prosecution of its petition for review of the aforesaid order of said Commission are those stated in its joint application and petition for rehearing timely filed with said Commission, which will be part of the record and which will be certified and filed with this Court, as is provided for by the Natural Gas Act, and which application and petition for rehearing is incorporated into this petition by reference with the same force and effect as though physically and specifically included herein. A concise statement of the conclusions of said Commission in paragraphs (1), (2), and (3), page 69, Opinion No. 217, is as follows:

"(1) Phillips Petroleum Company is engaged in the 'production and gathering' of natural gas within the meaning of Section 1(b) of the Natural Gas Act.

"(2) Phillips' movement of gas in interstate commerce and its sales thereof for resale in interstate commerce, together with its processing operations, all constitute a part of its gathering business, so that such movement, processing, and sales come within the exemption of production and gathering in Section 1(b) of the Act.

"(3) Phillips Petroleum Company is not a 'natural-gas company' within the meaning of Sections 1(b) or 2(6) of the Natural Gas Act."

The Federal Power Commission has erred in making each of the statements or conclusions contained in paragraphs numbered (2) and (3), page 69 of Opinion No. 217, afore set out. The statements or conclusions in said paragraph numbered (1) afore set out, page 69 of Opinion No. 217, are erroneous, if it is intended in any way to imply that *all* of the activities of Phillips Petroleum Company fall in the category of "production or gathering" within the meaning of Section 1(b) of the Natural Gas Act.

The errors in the statements or conclusions afore set out and contained in said paragraphs (1), (2), and (3), page 69 of Opinion No. 217, are as follows:

(a) In concluding that the movement of natural gas in interstate commerce by Phillips Petroleum Company, its sales thereof for resale in interstate commerce, together with its processing operations "all constitute part of its gathering business or they are incidents of or activities related to such business, so that such movement, processing, and sales come within the exception of processing and gathering in section 1(b) of the Act."

(b) In concluding that the movement of natural gas in interstate commerce by Phillips Petroleum Company is part of the "gathering business" or an incident or activity related thereto.

(c) In concluding that the sale of natural gas by Phillips Petroleum Company to pipeline companies such as Michigan-Wisconsin Pipe Line Company and Cities Service

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Gas Company and other pipeline companies mentioned in said Opinion, for purpose of resale, are part of the "gathering business" or an incident or activity related thereto.

(d) In concluding that the processing operations of Phillips Petroleum Company prior to the delivery and sale of natural gas to said pipeline companies is part of the "gathering business" or an incident or activity related thereto.

(e) In concluding that said movement, sales for resale and/or processing, either singly or together, come within the exception of production or gathering in Section 1(b) of the Natural Gas Act.

(f) In concluding that Phillips Petroleum Company is not a "natural-gas company" within the meaning of Section 1(b) or 2(6) of the Natural Gas Act.

The basis for and reasons relied on in support of the foregoing specifications of error are as follows:

1. That the aforesaid statements and conclusions of said Commission are contrary to law.

2. That the determination that "sales" are part of production or gathering is contrary to the evidence.

3. That the determination that jurisdiction over sales will interfere with state regulatory efforts is contrary to law.

4. That the determination that said Commission's jurisdiction will interfere with state regulation is contrary to evidence.

5. That the Commission erred as a matter of law in making an order terminating the proceedings.

6. That the provisions of the Natural Gas Act vest jurisdiction in said Commission.

That the foregoing represent the principal points upon which your petitioner urges and seeks relief so that the orders of the said commission previously referred to be reversed; that citations are omitted and subsidiary points and arguments relied upon are not included so as not to constitute this petition a brief, instead of a petition.

WHEREFORE, your petitioner prays that the Court review the complained of orders of the said Commission in the latter's Docket No. G--1148, and that the Court set aside such orders in their entirety.

Dated at Milwaukee, Wisconsin, this 8th day of November, 1951.

CITY OF MILWAUKEE,
a municipal corporation

By WALTER J. MATTISON
WALTER J. MATTISON,
City Attorney

HARRY G. SLATER,
First Assistant City Attorney

Attorneys for Petitioner
City of Milwaukee

801 City Hall
Milwaukee 2, Wisconsin

CHARLES S. RHYNE
National Institute of
Municipal Law Officers
730 Jackson Place, N. W.
Washington 6, D. C.

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STATE OF WISCONSIN }
MILWAUKEE COUNTY } SS.

WALTER J. MATTISON, being first duly sworn, on oath deposes and says that he is an officer of the above named petitioner, City of Milwaukee, to-wit: its City Attorney, and makes this verification on its behalf, being thereunto duly authorized; that he has read the foregoing petition of the City of Milwaukee to review an order of the Federal Power Commission in its Docket No. G-1148, knows the contents thereof, and that the same is true of his own knowledge except as to matters therein stated on information and belief, and as to those matters he believes it to be true; that the source of his knowledge and the grounds of his belief are information obtained by affiant and statements made to him by servants and agents of said corporation, all in the regular course of their respective duties, and records on file in the above entitled proceedings. Affiant says further that the reason why this verification is not made by the City of Milwaukee is that said City is a municipal corporation.

WALTER J. MATTISON

Subscribed and sworn to before me
this 8th day of November, 1951.

ELSIE W. SUTSCHEK
Notary Public, Milwaukee County, Wis.
My commission expires Dec. 30-1951

(NOTARIAL SEAL)

PETITION OF CITY OF KANSAS CITY, MISSOURI, FOR REVIEW OF ORDER OF FEDERAL POWER COMMISSION

11,242

To the Honorable, the United States Court of Appeals for the District of Columbia Circuit, and to the Judges thereof:

The City of Kansas City, Missouri, hereinafter called the petitioner, believing itself adversely affected and aggrieved by the final Order of the Federal Power Commission, hereinafter referred to as "Respondent" or "Respondent Commission", issued August 22, 1951, entered in that certain cause bearing Docket No. G-1148, entitled: "In the Matter of Phillips Petroleum Company", then pending before said Respondent, respectfully petitions this Honorable Court to review and set aside such Order, and in support of its Petition, states:

I.

Petitioner is a municipal corporation duly organized and existing under the Laws of the State of Missouri, and is a "municipality" as defined by Section 2(3) of the Natural Gas Act (15 U. S. C. A., Sections 717, *et seq.*).

II.

Respondent is an administrative and regulatory body created by statute, derives its authority and jurisdiction herein under an Act of Congress known as the "Natural

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Gas Act" (15 U. S. C. A., Sections 717, *et seq.*), and has its principal office and place of business in the City of Washington, District of Columbia.

III.

Phillips Petroleum Company, hereinafter referred to as "Phillips", is a Delaware corporation, with its principal office and place of business in Bartlesville, Oklahoma, and is the "natural-gas company" to which the Order relates that Respondent sought to be reviewed.

IV.

On October 28, 1948, Respondent ordered an investigation to determine whether Phillips is a "natural-gas company", as that term is defined by Sections 1(b) and 2(6) of the Natural Gas Act, and, if so, whether any of its rates, subject to the Respondent's jurisdiction are unjust or unreasonable. Petitioner intervened in such proceeding and showed that in 1950 Phillips sold in interstate commerce to Cities Service Gas Company, a "natural-gas company", for resale by it, more than 30 billion cubic feet of natural gas, and delivered such gas to Cities Service Gas Company in the State of Oklahoma. Some of this gas was sold and delivered to Petitioner and its inhabitants through the pipe lines of Cities Service Gas Company and the distribution system of The Gas Service Company, a local gas distributing company. The inhabitants of Petitioner also bought certain amounts of natural gas from Central West Utility Company, another local gas distributing company, which

purchased such gas from Panhandle Eastern Pipe Line Company, a "natural-gas company", which in turn purchased in interstate commerce for resale and received large quantities of gas from Phillips in the States of Texas and Oklahoma.

In 1950, Phillips admittedly transported natural gas in interstate commerce and sold such gas to five "natural-gas companies" in interstate commerce for resale by such companies, including said Cities Service Gas Company and Panhandle Eastern Pipe Line Company.

Hearings before an Examiner of the Respondent were begun in Bartlesville, Oklahoma, on April 3, 1951, and concluded on May 23, 1951. The staff of Respondent alleged and were prepared to show that Phillips' rates for natural gas were excessive by several million dollars per year. By Respondent's Order of April 16, 1951, however, the Examiner was directed to confine the hearing to a determination of the first issue hereinbefore mentioned, namely, whether Phillips is a "natural-gas company", and that a further hearing relative to the remaining issues be held at a later date to be fixed by Respondent.

The transcript covers approximately 6000 pages, and 196 exhibits were received in evidence covering many additional thousands of pages.

Following the granting of an unopposed request by the Respondent's staff for omission of intermediate decision procedure, the entire Respondent Commission hear oral argument of the single issue, to-wit, whether Phillips is a "natural-gas company", for two days, July 9 and 10, 1951.

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V.

As of August 22, 1951, Respondent found that Phillips is not a "natural-gas company", as defined by the Natural Gas Act, as more specifically set out in this Petition. A true copy of Respondent's Opinion and Order entered as of said August 22, 1951, marked "Exhibit A", is attached hereto and by reference made a part hereof. In the event Phillips is found by this Court to be a "natural-gas company", as defined by Sections 1(b) and 2(6) of the Natural Gas Act, Respondent will have jurisdiction to fix the maximum selling price which Phillips may charge for natural gas sold to the aforesaid interstate pipeline companies that sell and deliver such gas to the named distributing companies for resale to Petitioner and its inhabitants. The price of natural gas charged by Phillips to Cities Service Gas Company and to Panhandle Eastern Pipe Line Company is not now fixed by any regulatory authority.

Petitioner states that the Congress intended to protect the ultimate consumer of natural gas when it enacted the Natural Gas Act, but there is no such protection for the ultimate consumers of natural gas, such as Petitioner and its citizens, in the City of Kansas City, Missouri, if the price of gas sold by Phillips remains unregulated. Moreover, every cent paid for natural gas sold by Phillips to the aforesaid pipeline companies is reflected and passed on in the prices for gas charged the ultimate consumers thereof.

Hence, Petitioner is adversely affected and aggrieved by the aforesaid final Order of Respondent and is a proper party to petition this Court for review of the Respondent's Order under the provisions of Section 19(b) of the Natural

Gas Act, and Section 1009 of the Administrative Procedure Act (5 U. S. C. A., Sections 1001, *et seq.*).

VI.

As of August 22, 1951, Respondent made and entered its Order which contained concluding findings, reading as follows:

(1) Phillips Petroleum Company is engaged in the "production and gathering" of natural gas within the meaning of Section 1(b) of the Natural Gas Act.

(2) Phillips' movement of gas in interstate commerce and its sales thereof for resale in interstate commerce, together with its processing operations, all constitute a part of its gathering business, or they are incidents of or activities related to such business, so that such movement, processing, and sales come within the exemption of production and gathering in Section 1(b) of the Act.

(3) Phillips Petroleum Company is not a "natural-gas company" within the meaning of Sections 1(b) or 2(6) of the Natural Gas Act.

Respondent also entered the following Order:

> That the proceeding initiated by the Commission's order of October 28, 1948, in Docket No. G-1148 be, and the same hereby is, terminated.

Chairman Wallgreen and Commissioners Smith and Wimberly concurred in the findings and Order, Commissioner Draper concurred in the result and filed a short concurring opinion, and Commissioner Buchanan filed a lengthy dissenting opinion.

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VII.

On September 10, 1951, in form and manner and within the time prescribed by the applicable rules and regulations of the Commission, and Section 19(a) of the Natural Gas Act, Petitioner filed with Respondent its "Petition of Intervener Kansas City for Rehearing, Reconsideration and Vacation of the Opinion and Order of the Commission Herein, Issued August 22, 1951."

Thereafter, similar applications for rehearing of Respondent's Opinion and Order issued August 22, 1951, were filed by other interveners, as follows: By the City of Milwaukee, Wisconsin, on September 12, 1951; by the State of Wisconsin and Public Service Commission of Wisconsin on September 17, 1951; and by the City of Detroit, Michigan, and Wayne County, Michigan, on September 19, 1951; that thereafter on September 28, 1951, Petitioner's said Petition for Rehearing of said Order of August 22, 1951, was denied, and all of the said applications for rehearing of the other interveners were likewise denied by Respondent; that thereby and thereafter the said Order of Respondent of August 22, 1951, became fixed and is now a final order and judgment of said Respondent; that Petitioner is adversely affected and aggrieved thereby, for the reasons herein stated; and that Petitioner has exhausted its remedies before said Respondent and, therefore, now seeks review of said final Order and judgment of said Respondent Commission, all in form and manner as permitted and prescribed by Section 19 of the Natural Gas Act.

VIII.

The jurisdiction and authority of this Court is invoked under Section 19(b) of the Natural Gas Act aforesaid.

IX.

SPECIFICATIONS OF ERRORS

Respondent Commission, in its said findings and Order, committed errors in the following particulars, upon each of which Petitioner intends to reply:

1. The Commission erred as a matter of law by ordering the above proceeding to be terminated, because there is substantial evidence on the record that Phillips Petroleum Company (Phillips) is a "natural-gas company" as defined by the Natural Gas Act and, therefore, the Commission does in fact and in law have jurisdiction of Phillips in this proceeding.

2. The Commission erred in failing to find that Phillips is a "natural-gas company" as defined by the Natural Gas Act and as such is subject to the jurisdiction of the Commission under such Natural Gas Act, because the record shows and Phillips admits on the record that it is engaged in the transportation of natural gas in interstate commerce and also in the sale in interstate commerce of such gas for resale, and, therefore, Phillips is in fact and in law a "natural-gas company" and subject to the jurisdiction of the Commission.

3. The Commission erred in its formal Finding No. (1) that Phillips is engaged in the "production and gathering"

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of natural gas within the meaning of Section 1(b) of the Natural Gas Act, indicating thereby that Phillips is exempt from the provisions of the Natural Gas Act, whereas the record shows that Phillips' operations are not confined to the "production and gathering" of natural gas but Phillips is engaged in the transportation of natural gas in interstate commerce and in the sale in interstate commerce of such gas for resale.

4. The Commission erred in its formal Finding No. (2) that Phillips' movement of gas in interstate commerce and its sales thereof for resale in interstate commerce, together with its processing operations, all constitute a part of its "gathering" business, or they are incidents of or activities related to such business, so that such movement, processing, and sales come within the exemption of "production and gathering" in Section 1(b) of the Natural Gas Act, because such finding is contrary to and not supported by substantial evidence on the record and is contrary to the law appertaining thereto.

5. The Commission erred in its formal Finding No. (3) that Phillips is not a "natural-gas company" within the meaning of Sections 1(b) or 2(6) of the Natural Gas Act because such finding is not supported by substantial evidence on the record and is contrary to the law appertaining thereto.

6. The Commission erred in its conclusion that the background and legislative history of the Natural Gas Act did not encompass the activities of companies whose operations are confined to "production and gathering", including the movement and sale of gas as a part of that business, and that Phillips was such a company, because such a con-

clusion is contrary to fact and in violation of the express terms of the Natural Gas Act.

7. The Commission erred in its finding that Phillips' operations, so far as relevant, consist of "production and gathering", or they are incidents of or activities related to these functions, thus requiring their inclusion within the exemption of the Natural Gas Act, because such finding is not supported by substantial evidence on the record and is contrary to law.

8. The Commission erred in its finding that Phillips' processing at its various plants and the movement of gas by Phillips to these plants constitute "gathering" within the meaning of Section 1(b) of the Natural Gas Act, because such finding is not supported by substantial evidence on the record and is contrary to law.

9. The Commission erred in its conclusion that the movement of gas through each of the Phillips' processing plants is a part of Phillips' "gathering" business or is at least exempt as an incident of or an activity related to its "gathering" process, because such conclusion is not supported by substantial evidence on the record and is contrary to law.

10. The Commission erred in holding that the movement of gas through certain large diameter pipe lines leading to Phillips' processing plants is exempt from the provisions of the Natural Gas Act on the ground that such lines leading to such plants served the function of "gathering" and that the movement of gas through these lines and the lines themselves are exempt under the Natural Gas Act, because such conclusions are not supported by substantial evidence on the record and are contrary to law.

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11. The Commission erred in its finding that the sales of gas made a short distance after the gas moves through Phillips' processing plants are the end product of "production and gathering" and are a part of Phillips' "gathering" business, or at least an exempt incident thereof, because such finding is not supported by substantial evidence on the record and is contrary to law.

12. The Commission erred in its finding that such sales of natural gas are so closely connected with the local incidents of the process of "production and gathering" as to render rate regulation by the Commission inconsistent or a substantial interference with the exercise by the affected states of their regulatory functions, because such finding is not supported by substantial evidence on the record and is contrary to law.

13. The Commission erred in its finding that the Commission's regulation of sales made by Phillips in the process of "production and gathering" of natural gas would, by its very nature, be inconsistent or constitute a substantial interference with such regulation of producers and gatherers by the States of Oklahoma, Texas and New Mexico, because such finding is not supported by substantial evidence on the record and is contrary to law.

14. The Commission erred in failing to find that Phillips' sales of gas to the five interstate pipe lines, to-wit: Panhandle Eastern Pipe Line Company, Michigan-Wisconsin Pipe Line Company, Independent Natural Gas Company, El Paso Natural Gas Company and Cities Service Gas Company, were made after the completion of "production and gathering", because there was substantial evidence on the record to support such a finding, and under

the provisions of the Natural Gas Act such finding should have been made.

15. The Commission erred in failing to find that sales of gas made by Phillips to the aforesaid five interstate pipe lines did not and never had created a conflict of interference with the exercise by the affected states of their regulatory functions, because there was substantial evidence on the record to support such a finding, and under the provisions of the Natural Gas Act such a finding should have been made.

16. The Commission erred in its finding that the fixing of maximum rates for the sales of natural gas made by a producer thereof under the Natural Gas Act would run counter to state conservation efforts, through the fixing of minimum well-head prices or otherwise, to insure maximum recovery of gas prior to abandonment of the well, because such finding is not supported by substantial evidence on the record and is contrary to law.

17. The Commission erred in directing its Trial Examiner by its order of April 6, 1951, to exclude all evidence to determine whether any of Phillips' rates, subject to the Commission's jurisdiction, are unjust or unreasonable, and further erred in approving the exclusion of substantial evidence offered by the staff of the Commission at such hearing showing that Phillips' rates are in fact unjust and unreasonable, because such action of the Commission was arbitrary and capricious, contrary to law and in violation of the express terms of the Natural Gas Act.

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X.

Respondent also erred in overruling and denying said "Petition of Intervener Kansas City for Rehearing, Reconsideration and Vacation of the Opinion and Order of the Commission Herein, Issued August 22, 1951."

WHEREFORE, Petitioner respectfully prays:

(1) That upon the filing hereof, the Clerk of this Court serve copy of this petition upon the Honorable Thomas C. Buchanan, Acting Chairman of the Respondent Federal Power Commission, and command said Commission, within forty (40) days from the date thereof, to certify and file with this Court transcript of the record upon which the Order complained of was entered, including all pleadings, orders, transcript of testimony, exhibits, findings, conclusions and Order of the Commission of date August 22, 1951, Petitioner's petition for rehearing, and Order denying said petition for rehearing, all in form and manner prescribed by law.

(2) That on final hearing and determination hereof, the said findings, conclusions and Order of said Respondent Commission of date August 22, 1951, be in all things set aside, reversed and held for naught; and that respondent Phillips Petroleum Company be held by this Court to be a "natural-gas company" within the meaning of the aforesaid Natural Gas Act, and, therefore, subject to the jurisdiction of Respondent Commission.

(3) For such other and further relief as shall appear to be just and equitable in the premises.

/s/ DAVID M. PROCTOR
David M. Proctor
City Counselor

/s/ JEROME M. JOFFEE
Jerome M. Joffee
Special Utilities and
Legislative Counsel

Attorneys for City of
Kansas City, Missouri,
Petitioner.

AFFIDAVIT

STATE OF MISSOURI }
COUNTY OF JACKSON } SS

Jerome M. Joffee, of lawful age, being first duly sworn, upon his oath states that he is Special Utilities and Legislative Counsel for Petitioner City of Kansas City, Missouri, and as such is duly authorized to and makes this affidavit for and on its behalf; that he has read the within and foregoing Petition for Review and that the facts set out therein are true, according to the best of his knowledge, information and belief.

/s/ JEROME M. JOFFEE

Subscribed and sworn to before me this 8th day of November, 1951.

/s/ MAURICE E. BENSON
Notary Public within
and for Jackson County,
Missouri

My commission expires February 4, 1955.

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PETITION OF THE CITY OF DETROIT, MICHIGAN, FOR REVIEW OF ORDER OF FEDERAL POWER COMMISSION

11,241

To the Honorable, the United States Court of Appeals for the District of Columbia Circuit, and to the Judges thereof:

The City of Detroit, a municipal corporation of the State of Michigan, hereinafter called the "Petitioner," believing itself adversely affected and aggrieved by the final Order of the Federal Power Commission, hereinafter called the "Respondent," issued August 22, 1951, entered in that certain cause bearing Docket No. G-1148, entitled: "In the Matter of Phillips Petroleum Company," then pending before Respondent, respectfully petitions this Honorable Court to review and set aside such Order, and in support of its Petition, states:

I

Petitioner is a municipal corporation duly organized and existing under the Laws of the State of Michigan, and is a "municipality" as defined by Section 2(3) of the Natural Gas Act (15 U. S. C. A., Sections 717, *et seq.*).

II

Respondent is an administrative and regulatory body created by statute, derives its authority and jurisdiction herein under an Act of Congress known as the "Natural Gas Act" (15 U. S. C. A., Sections 717, *et seq.*), and has its

principal office and place of business in the City of Washington, District of Columbia.

III

Phillips Petroleum Company, hereinafter referred to as "Phillips", is a Delaware corporation, with its principal office and place of business in Bartlesville, Oklahoma, and is the "natural-gas company" to which the Order relates that Respondent sought to be reviewed.

IV

On October 28, 1948, Respondent ordered an investigation to determine whether Phillips is a "natural gas company," as that term is defined by sections 1(b) and 2(6) of the Natural Gas Act, and, if so, whether any of its rates, subject to the Respondent's jurisdiction are unjust and unreasonable. Petitioner intervened in such proceeding and showed that in 1950 Phillips sold in interstate commerce to Michigan-Wisconsin Pipe Line Company, a "natural gas company," for resale by it, more than several million cubic feet of natural gas, and delivered such gas to Michigan-Wisconsin Pipeline Company in the State of Oklahoma. Some of this gas was sold and delivered to Petitioner and its inhabitants through the pipe lines of Michigan-Wisconsin Pipe Line Company and the distribution system of the Michigan Consolidated Gas Company, a local gas distributing company. The inhabitants of Petitioner also bought certain amounts of natural gas from Michigan Consolidated Gas Company, which purchased such gas from Panhandle

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Eastern Pipe Line Company, a "natural gas company", which in turn purchased in interstate commerce for resale and received large quantities of gas from Phillips in the States of Texas and Oklahoma.

In 1950, Phillips admittedly transported natural gas in interstate commerce and sold such gas to five "natural gas companies" in interstate commerce for resale by such companies, including said Michigan - Wisconsin Pipeline Company and Panhandle Eastern Pipe Line Company.

Hearings before an Examiner of the Respondent were begun in Bartlesville, Oklahoma, on April 3, 1951, and concluded on May 23, 1951. The staff of Respondent alleged and were prepared to show that Phillips' rates for natural gas were excessive by several million dollars per year. By Respondent's Order of April 16, 1951, however, the Examiner was directed to confine the hearing to a determination of the first issue hereinbefore mentioned, namely, whether Phillips is a "natural gas company," and that a further hearing relative to the remaining issues be held at a later date to be fixed by Respondent.

The transcript covers approximately 6000 pages, and 196 exhibits were received in evidence covering many additional thousands of pages.

Following the granting of a request by the Respondent's staff for omission of intermediate decision procedure (Counsel for this Petitioner not having participated in favor of such request; not having consented to such request nor condoned the same), the entire Respondent Commission heard oral argument of the single issue, to-wit, whether Phillips is a "natural gas company," for two days, July 9 and 10, 1951.

V

As of August 22, 1951, Respondent found that Phillips is not a "natural gas company," as defined by the Natural Gas Act, as more specifically set out in this Petition. A true copy of Respondent's Petition and Order entered as of said August 22, 1951, Marked "Exhibit A", is attached hereto and by reference made a part hereof. In the event Phillips is found by this Court to be a "natural gas company," as defined by Sections 1(b) and 2(6) of the Natural Gas Act, Respondent will have jurisdiction to fix the maximum selling price which Phillips may charge for natural gas sold to the aforesaid interstate pipeline companies that sell and deliver such gas to the named distributing company for resale to Petitioner and its inhabitants. The price of natural gas charged by Phillips to Michigan Consolidated Gas Company and to Panhandle Eastern Pipe Line Company is not now fixed by any regulatory authority.

Petitioner states that the Congress intended to protect the ultimate consumer of natural gas when it enacted the Natural Gas Act, but there is no such protection for the ultimate consumers of natural gas, such as Petitioner and its citizens, in the City of Detroit, Michigan, if the price of gas sold by Phillips remains unregulated. Moreover, every cent paid for natural gas sold by Phillips to the aforesaid pipe line companies is reflected and passed on in the prices for gas charged the ultimate consumers thereof.

Hence, Petitioner is adversely affected and aggrieved by the aforesaid final Order of Respondent and is a proper party to petition this Court for review of the Respondent's Order under the provisions of Section 19(b) of the Natural

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Gas Act, and Section 1009 of the Administrative Procedure Act (5 U. S. C. A., Sections 1001, *et seq.*).

VI

As of August 22, 1951, Respondent made and entered its Order which contained concluding findings reading as follows:

(1) Phillips Petroleum Company is engaged in the "production and gathering" of natural gas within the meaning of Section 1(b) of the Natural Gas Act.

(2) Phillips' movement of gas in interstate commerce and its sale thereof for re-sale in interstate commerce, together with its processing operations, all constitute a part of its gathering business, or they are incidents of or activities related to such business, so that such movement, processing, and sales come within the exemption of production and gathering in Section 1(b) of the Act.

(3) Phillips Petroleum Company is not a "natural gas company" within the meaning of Sections 1(b) or 2(6) of the Natural Gas Act.

Respondent also entered the following Order:

That the proceedings initiated by the Commission's Order of October 28, 1948, in Docket No. G-1148, be and the same is, terminated.

Chairman Wallgren and Commissioners Smith and Wimberly concurred in the findings and Order, Commis-

sioner Draper concurred in the result and filed a short concurring opinion, and Commissioner Buchanan filed a lengthy dissenting opinion.

VII

On September 18, 1951, in form and manner and within the time prescribed by the applicable rules and regulations of the Commission, and Section 19(a) of the Natural Gas Act, Petitioner filed with Respondent its "Petition of Intervenor City of Detroit for Rehearing, Reconsideration and Vacation of the Opinion and Order of the Commission Herein, Issued August 22, 1951."

Similar applications for rehearing of Respondent's Opinion and Order issued August 22, 1951, were filed by other intervenors, as follows: By the City of Milwaukee, Wisconsin, on September 12, 1951; by the State of Wisconsin and Public Service Commission of Wisconsin on September 17, 1951; and by the City of Kansas City, Missouri, on September 19, 1951, and Wayne County, Michigan, on September 19, 1951; that thereafter on September 28, 1951, Petitioner's said Petition for Rehearing of said Order of August 22, 1951, was denied, and all of the said applications for rehearing of the other intervenors were likewise denied by Respondent; that thereby and thereafter the said Order of Respondent of August 22, 1951, became fixed and is now a final Order and judgment of said Respondent; that Petitioner is adversely affected and aggrieved thereby, for the reasons herein stated; and that Petitioner has exhausted its remedies before said Respondent, and, therefore, now seeks review of said final Order and Judgment of said

BLEED THROUGH

Respondent Commission, all in form and manner as permitted and prescribed by Section 19 of the Natural Gas Act.

VIII

The jurisdiction and authority of this Court is invoked under Section 19(b) of the Natural Gas Act aforesaid.

IX

SPECIFICATION OF ERRORS

Respondent Commission, in its said findings and Order, committed errors in the following particulars, upon each of which Petitioner intends to rely:

1. The Commission erred as a matter of law by ordering the above proceeding to be terminated, because there is substantial evidence on the record that Phillips Petroleum Company (Phillips) is a "natural gas company" as defined by the Natural Gas Act, and, therefore, the Commission does in fact and in law have jurisdiction of Phillips in this proceeding.

2. The Commission erred in failing to find that Phillips is a "natural gas company" as defined by the Natural Gas Act and as such is subject to the jurisdiction of the Commission under such Natural Gas Act, because the record shows and Phillips admits on the record that it is engaged in the transportation of natural gas in interstate Commerce and also in the sale in interstate commerce of

such gas for resale, and, therefore, Phillips is in fact and in law a "natural gas company" and subject to the jurisdiction of the Commission.

3. The Commission erred in its formal Finding No. (1) that Phillips is engaged in the "production and gathering" of natural gas within the meaning of Section 1(b) of the Natural Gas Act, indicating thereby that Phillips is exempt from the provisions of the Natural Gas Act, whereas the record shows that Phillips' operations are not confined to the "production and gathering" of natural gas but Phillips is engaged in the transportation of natural gas in interstate commerce and in the sale in interstate commerce of such gas for resale.

4. The Commission erred in its formal Finding No. (2) that Phillips' movement of gas in interstate commerce, and its sales thereof for resale in interstate commerce, together with its "gathering" business, or they are incidents of or activities related to such business, so that such movement, processing, and sales come within the exemption of "production and gathering" in Section 1(b) of the Natural Gas Act, because such finding is contrary to and not supported by substantial evidence on the record and is contrary to the law appertaining thereto.

5. The Commission erred in its formal Finding No. (3) that Phillips is not a "natural gas company" within the meaning of Sections 1(b) or 2(6) of the Natural Gas Act because such finding is not supported by substantial evidence on the record and is contrary to the law appertaining thereto.

6. The Commission erred in its conclusions that the background and legislative history of the Natural Gas Act

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did not encompass the activities of companies whose operations are confined to "production and gathering", including the movement and sale of gas as a part of that business, and that Phillips was such a company, because such a conclusion is contrary to fact and in violation of the express terms of the Natural Gas Act.

7. The Commission erred in its finding that Phillips' operations, so far as relevant, consist of "production and gathering", or they are incidents of or activities related to these functions, thus requiring their inclusion within the exemption of the Natural Gas Act, because such finding is not supported by substantial evidence on the record and is contrary to law.

8. The Commission erred in its finding that Phillips' processing at its various plants and the movement of gas by Phillips to these plants constitute "gathering" within the meaning of Section 1(b) of the Natural Gas Act, because such finding is not supported by substantial evidence on the record and is contrary to law.

9. The Commission erred in its conclusion that the movement of gas through each of the Phillips' processing plants is a part of Phillips' "gathering" business or is at least exempt as an incident of or an activity related to its "gathering" process, because such conclusion is not supported by substantial evidence on the record and is contrary to law.

10. The Commission erred in holding that the moving of gas through certain large diameter pipe lines leading to Phillips' processing plants is exempt from the provisions of the Natural Gas Act on the ground that such lines leading

to such plants served the function of "gathering" and that the movement of gas through these lines and the lines themselves are exempt under the Natural Gas Act, because such conclusions are not supported by substantial evidence on the record and are contrary to law.

11. The Commission erred in its finding that the sales of gas made a short distance after the gas moves through Phillips' processing plants are the end product of "production and gathering" and are a part of Phillips' "gathering" business, or at least an exempt incident thereof, because such finding is not supported by substantial evidence on the record and is contrary to law.

12. The Commission erred in its finding that such sales of natural gas are so closely connected with the local incidents of the process of "production and gathering" as to render rate regulation by the Commission inconsistent or a substantial interference with the exercise by the affected states of their regulatory functions, because such finding is not supported by substantial evidence on the record and is contrary to law.

13. The Commission erred in its finding that the Commission's regulation of sales made by Phillips in the process of "production and gathering" of natural gas would, by its very nature, be inconsistent or constitute a substantial interference with such regulation of producers and gatherers by the States of Oklahoma, Texas and New Mexico, because such finding is not supported by substantial evidence on the record and is contrary to law.

14. The Commission erred in failing to find that Phillips' sales of gas to the five interstate pipe lines, to-

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wit: Panhandle Eastern Pipe Line Company, Michigan-Wisconsin Pipe Line Company, Independent Natural Gas Company, El Paso Natural Gas Company and Cities Service Gas Company, were made after the completion of "production and gathering", because there was substantial evidence on the record to support such a finding, and under the provisions of the Natural Gas Act such finding should have been made.

15. The Commission erred in failing to find that sales of gas made by Phillips to the aforesaid five interstate pipe lines did not and never had created a conflict of interference with the exercise by the affected states of their regulatory functions, because there was substantial evidence on the record to support such a finding, and under such provisions of the Natural Gas Act such a finding should have been made.

16. The Commision erred in its finding that the fixing of maximum rates for the sales of natural gas made by a producer thereof under the Natural Gas Act would run counter to state conservation efforts, through the fixing of minimum well-head prices or otherwise, to insure maximum recovery of gas prior to abandonment of the well, because such finding is not supported by substantial evidence on the record and is contrary to law.

17. The Commission erred in directing its Trial Examiner by its order of April 6, 1951, to exclude all evidence to determine whether any of Phillips' rates, subject to the Commission's jurisdiction, are unjust or unreasonable, and further erred in approving the exclusion of substantial evidence offered by the staff of the Commission at such hearing showing that Phillips' rates are in fact unjust and

unreasonable, because such action of the Commission was arbitrary and capricious, contrary to law and in violation of the express terms of the Natural Gas Act.

18. The Commission erred by invoking a procedural device termed "Omission of Intermediate Decision" and therefore deprived the Petitioner of a full and fair hearing, contrary to law and the provisions of the Natural Gas Act and the Administrative Procedure Act in such cases made and provided.

The Commission designated Edward B. Marsh as the Trial Examiner, who, for a period of 39 days, conducted the hearing at Bartlesville, Oklahoma. He was not accompanied by any member or members of the Commission, so that he was the sole trier of the issues in the case. (In effect he was the Federal Power Commission in the matter. (Section 15 Natural Gas Act)). On July 27, 1951, four of the five members of the Commission, by some sort of vote, caused to be issued a "Release" announcing did not follow any Findings of Fact; rather it preceded the determination of fact and as of date August 15, 1951, no findings had been made or filed by the Commission (see Opinion No. 217 dated August 16, 1951). The major issue c the case is whether Phillips is a "natural gas company" within the provisions of the Natural Gas Act. This question is to be resolved in the light of facts and these facts, in turn, are determinable upon the testimony of witnesses who appeared before the Trial Examiner and testified. In this case the Trial Examiner did not make any Findings of Fact. He was relieved of that task and duty by an Order of the Commission which, ~~in effect~~, is the process by which the Commission usurps the jurisdiction of the Trial Examiner to decide

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the facts from the evidence adduced at the trial, hearing or investigation.

The Findings of Fact, Conclusions of Law, and the Order contained in and made a part of Opinion No. 217, aforesaid, were promulgated by the majority of the Commission in an arbitrary and capricious manner, beyond the scope of their authority and contrary to the principles of law and the Constitution of the United States, in that "due process of law" was not followed and administered by the Commission in the course of the conduct of the hearing and investigation affecting said matter, and the Petitioner has been deprived thereby of its statutory right to a full and fair hearing. Section 14 of the Natural Gas Act is the statutory authority for the conduct of investigations (52 Stat. 828 (1938); 15 U. S. C. 717-n is the authority for hearings. As a Trial Examiner was designated, as provided by Section 15(a), it must be presumed that the proceeding thus conducted was a "hearing" which, as a matter of law, required that "the one who decides must hear" (Morgan v. United States, 298 U. S. 468). Contrary to the laws of the United States, the Commission, without power so to do, removed the matter from the hands of the Trial Examiner, who had been designated by it; and thereafter undertook to hear arguments of counsel, to make an alleged Finding of Fact, and Conclusions of Law thereon. The Natural Gas Act does not prescribe such a procedure and no power is delegated to the Commission to assume such legislative authority as to enable it to do so.

By reason of the method used by this Commission to decide that it did not have jurisdiction of Phillips, the Findings of Fact upon the evidence, by the Trial Examiner,

(who heard the testimony, and by virtue thereof, was the only competent person to make such a finding from the mass of conflicting testimony adduced before him) was dispensed with by the Commission by invoking a procedural device termed "Omission of Intermediate Decision", thereby depriving Petitioner of a full and fair hearing.

X

Respondent also erred in overruling and denying said "Petition of Intervenor City of Detroit for Rehearing, Reconsideration and Vacation of the Opinion and Order of the Commission herein, issued August 22, 1951."

CONCLUSION

WHEREFORE, Petitioner respectfully prays:

(1) That upon the filing hereof, the Clerk of this Court serve copy of this petition upon the Honorable Thomas C. Buchanan, Acting Chairman of the Respondent Federal Power Commission, and command said Commission, within forty (40) days from the date thereof, to certify and file with this Court transcript of the record upon which the Order complained of was entered, including all pleadings, orders, transcript of testimony, exhibits, findings, conclusions and Order of the Commission of date August 22, 1951, Petitioner's petition for rehearing, and Order denying said petition for rehearing, all in form and manner prescribed by law.

(2) That on final hearing and determination hereof, the said findings, conclusions and Order of said Respondent

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Commission of date August 22, 1951, be in all things set aside, reversed and held for naught; and that respondent Phillips Petroleum Company be held by this Court to be a "natural gas company" within the meaning of the aforesaid Natural Gas Act, and, therefore, subject to the jurisdiction of Respondent Commission.

(3) For such other and further relief as shall appear to be just and equitable in the premises.

CITY OF DETROIT
A municipal corporation of the
State of Michigan,
Petitioner,

Attorneys for said
Petitioner
301 City Hall
Detroit 26, Michigan
Telephone: WOodward 3-9640

(signed) PAUL T. DWYER,
Paul T. Dwyer
Acting Corporation Counsel

(signed) JAMES H. LEE,
James H. Lee
Assistant Corporation Counsel

AFFIDAVIT

STATE OF MICHIGAN }
COUNTY OF WAYNE } SS.

JAMES H. LEE of the City of Detroit, Wayne County, Michigan, being duly sworn, deposes and says that he is an Assistant Corporation Counsel of the City of Detroit, a

municipal corporation of the State of Michigan, and as such is attorney for the City of Detroit, Michigan, a municipal corporation of the State of Michigan, petitioner herein; that he is authorized to sign the foregoing petition for and and behalf of said petitioner and that he did so sign same; that he knows the contents thereof and that the same is true of his own knowledge except as to those matters therein stated to be upon information and belief, and as to those matters, he believes it to be true.

Further dependent saith not.

JAMES H. LEE
James H. Lee
Assistant Corporation Counsel

Subscribed and sworn to before me
This 12th day of November, A. D.
1951.

GORDON N. McKEE

Notary Public, Wayne County, Michigan (SEAL)
My commission expires March 23, 1954.

UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

MOTION OF PHILLIPS PETROLEUM COMPANY FOR LEAVE TO INTERVENE

Phillips Petroleum Company (hereinafter referred to as "Phillips") respectfully moves, pursuant to the Rule 38(c) of this Court, for leave to intervene, to be heard upon brief and oral argument and otherwise to participate fully in this proceeding as a party in support of the orders

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of the Federal Power Commission (hereinafter referred to as "Commission") which petitioners seek to have reviewed and set aside in this proceeding. In support of this motion, Phillips respectfully states:

I.

Phillips is a corporation organized and existing under the laws of the State of Delaware, with its principal operating office in Bartlesville, Oklahoma.

II.

The Commission action sought to be reviewed in this proceeding directly affects Phillips. The proceeding below was styled "In the Matter of the Phillips Petroleum Company, Docket No. G-1148," and was instituted by an order of the Commission dated October 28, 1948, which provided in part:

"The Commission, upon its own motion, *orders* that:

An investigation of Respondent, Phillips Petroleum Company, be and hereby is instituted for the purpose of enabling the Commission:

(A) To determine with respect to the Respondent:

(i) Whether it is a natural-gas company within the meaning of the Natural Gas Act; and

(ii) Whether, in connection with any transportation or sale of natural gas, subject to the jurisdiction of the Commission, any rates, charges, or classifications demanded, ob-

served, charged, or collected, or any rules, regulations, practices or contracts affecting such rates, charges, or classifications are unjust, unreasonable, unduly discriminatory, or preferential; and

(B) If it shall find, after hearing, that the Respondent is a natural-gas company within the meaning of the Natural Gas Act, and that any of Respondent's rates, charges, classifications, rules, regulations, practices, or contracts, subject to the jurisdiction of the Commission, are unjust, unreasonable, unduly discriminatory or preferential, to determine and fix by order or orders just and reasonable, nondiscriminatory or nonpreferential rates, charges, classifications, rules, regulations, practices, or contracts to be thereafter observed and in force."

Hearings in said proceeding were begun before an Examiner of the Commission on April 3, 1951, and concluded May 23, 1951. By order dated April 16, 1951, the Commission directed that the hearing be limited initially to the issue of whether Phillips is a " 'natural-gas company' within the meaning of the Natural Gas Act," and that a further hearing as to the remaining issues be held later, if necessary. Counsel for Phillips participated in the proceeding before the Examiner and filed briefs and made an oral argument before the Commission. The record before the Commission included approximately 6,000 pages of oral testimony and 196 exhibits.

In its Opinion and Order No. 217, dated August 16, 1951, issued August 22, 1951, the Commission found:

"(1) Phillips Petroleum Company is engaged in the 'production and gathering' of natural gas within

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the meaning of Section 1(b) of the Natural Gas Act.

(2) Phillips' movement of gas in interstate commerce and its sales thereof for resale in interstate commerce, together with its processing operations, all constitute a part of its gathering business, or they are incidents or activities related to such business, so that such movement, processing, and sales come within the exemption of production and gathering in Section 1(b) of the Act.

(3) Phillips Petroleum Company is not a 'natural-gas company' within the meaning of Sections 1(b) or 2(6) of the Natural Gas Act."

Pursuant thereto the Commission ordered:

"That the proceeding initiated by the Commission's order of October 28, 1948, in Docket No. G-1148 be, and the same hereby is, terminated."

Petitioners herein thereafter filed with the Commission a petition for rehearing. That petition was denied by the Commission by an order dated September 27, 1951, and issued September 28, 1951.

III.

Petitioners have filed in this Court a petition to review and set aside (a) the order of the Commission dated August 16, 1951 and issued on August 22, 1951, holding that Phillips is not a "natural-gas company" and that its sales of natural gas and other natural gas operations are not subject to regulation by the Commission, and (b) the order of the Commission of September 28, 1951, denying petitioners'

petition for rehearing. The petition herein asks this Court to determine generally that Phillips is a "natural-gas company" within the meaning of the Natural Gas Act, and, as such, subject to the jurisdiction of the Commission under said Act and, more specifically, to determine that certain of Phillips' sales of natural gas are subject to regulation by the Commission.

IV.

The relief sought by petitioners, if granted, would substantially and directly affect Phillips and its operations. Phillips, therefore, has a direct and immediate interest in the outcome of this proceeding which is not completely represented by any other party.

WHEREFORE, Phillips respectfully moves this Court for leave to intervene, to be heard on oral argument and on brief and otherwise to participate fully in this proceeding as a party in support of the orders which petitioners seek to have reviewed and set aside.

Respectfully submitted,

HUGH B. COX
Union Trust Building
Washington 5, D. C.

RAYBURN L. FOSTER
HARRY D. TURNER
WARREN M. SPARKS
KENNETH HEADY
c/o Phillips Petroleum Company
Bartlesville, Oklahoma

Attorneys for
Phillips Petroleum Company

Dated: January 25, 1952

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CERTIFICATE OF SERVICE

The undersigned, attorney for Phillips Petroleum Company, hereby certifies that on January 28, 1952, he served a copy of the foregoing motion to intervene upon each of the parties of record in this proceeding by duly mailing a copy thereof by registered mail, properly addressed and with postage prepaid, to counsel of record for each of said parties as follows:

Bradford Ross, Esq.
General Counsel for Federal Power Commission
1800 Pennsylvania Avenue, N. W.
Washington 6, D. C.

William E. Torkelson, Esq.
1 W. Wilson Street
Madison, Wisconsin
Attorney for the State of Wisconsin,
Petitioner

Stewart G. Honeck, Esq.
State Capital
Madison, Wisconsin
Attorney for Public Service Commission,
Petitioner.

HUGH B. COX
Attorney for
Phillips Petroleum Company

UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11,247 JANUARY TERM, 1952

State of Wisconsin and Public Service Commission of Wisconsin,
Petitioners,

v.

Federal Power Commission,
Respondent.

No. 11,241 JANUARY TERM, 1952

City of Detroit, Michigan,
Petitioner,

v.

Federal Power Commission,
Respondent.

No. 11,242 JANUARY TERM, 1952

City of Kansas City, Missouri,
Petitioner,

v.

Federal Power Commission,
Respondent.

No. 11,245 JANUARY TERM, 1952

City of Milwaukee, Wisconsin, a municipal corporation,
Petitioner,

v.

Federal Power Commission,
Respondent.

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No. 11,252 JANUARY TERM, 1952

County of Wayne, Michigan,
Petitioner,

v.

Federal Power Commission,
Respondent.

Before: Stephens, Chief Judge, in Chambers

ORDER

Upon consideration of the motion of Phillips Petroleum Company for leave to intervene in the above-entitled cases, to be allowed to file a brief and to be allowed to argue therein, and respondent having informed the Clerk of this Court by letter that it has no objection thereto and it appearing that none of the petitioners herein have filed objections to said motion, it is

ORDERED that the motion be, and it is hereby, granted.

Dated: FEB 9 - 1952

United States Court of Appeals
For the
District of Columbia Circuit

FILED FEB 9 1952

JOSEPH W. STEWART
Clerk

UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

MOTION OF STATE OF NEW MEXICO, ET AL. FOR LEAVE TO INTERVENE

Comes now the State of New Mexico, and the Oil Conservation Commission, of the State of New Mexico, by its attorneys, Attorney General, Joe L. Martinez, and Peter N. Chumbris, Special Assistant Attorney General, State of New Mexico, and respectfully move, pursuant to the Rule 38(c) of this Court, for leave to intervene, to be heard upon brief and oral argument and otherwise to participate fully in this proceeding as a party in support of the order of the Federal Power Commission which petitioner seeks to have reviewed and set aside in this proceeding. In support of this motion, State of New Mexico, Et al, respectfully state:

I.

That the Oil Conservation Commission is an agency of the State of New Mexico.

II.

The Federal Power Commission action sought to be reviewed in this proceeding affects the State of New Mexico, and the Oil Conservation Commission. The proceeding below was styled IN THE MATTER OF THE PHILLIPS PETROLEUM COMPANY, DOCKET NO. G-1148 AND WAS INSTITUTED BY AN ORDER OF THE FEDERAL

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POWER COMMISSION DATED OCTOBER 28, 1948. The State of New Mexico, and the Oil Conservation Commission of the State of New Mexico, filed a motion for leave to intervene and were permitted to intervene in said matter below.

Hearings in said proceeding were begun before an Examiner of the Commission on April 3, 1951, and concluded May 23, 1951. By order dated April 16, 1951, the Commission directed that the hearing be limited initially to the issue of whether the Phillips Petroleum Company is a natural gas company within the meaning of the Natural Gas Act, and that a further hearing as to the remaining issues to be held later, if necessary. Counsel for the State of New Mexico, Et al, participated in the proceeding before the Examiner and filed briefs and made an oral argument before the Federal Power Commission. The record before the Commission included approximately 125 pages of oral testimony and exhibits.

In its Opinion and Order No. 217, dated August 16, 1951, issued August 22, 1951, The Federal Power Commission found that it did not have jurisdiction over independent producers and gatherers of natural gas. The petitioners, State of Wisconsin and Public Service Commission of Wisconsin, thereafter filed with the Federal Power Commission a petition for rehearing. That petition was denied by the Federal Power Commission by an order dated September 27, 1951, and issued September 28, 1951.

III.

The petitioners have filed in this Court a petition to review and set aside (a) the order of the Federal Power Commission dated August 16, 1951 and issued on August 22, 1951; and (b) the order of the Federal Power Commission of September 28, 1951, denying the petitioners petition for rehearing. The petition herein asks this Court to determine generally that Phillips Petroleum Company is a natural gas Company within the meaning of the Natural Gas Act.

IV.

The State of New Mexico and the Oil Conservation Commission of the State of New Mexico, contended in the proceeding below that they were constitutionally competent to regulate independent producers and gatherers of natural gas of which Phillips Petroleum Company was one. and that in view of the decision in the Inter-State Natural Gas Company, v. Federal Power Commission, 331 U. S. 682, the State of New Mexico, Et al, intervened to substantiate that contention which was upheld in the Opinion of the Federal Power Commission.

V.

The relief sought by the petitioners, if granted, would affect the jurisdiction of the Oil Conservation Commission over independent producers and gatherers of natural gas, of which Phillips Petroleum Company is one and, therefore,

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the State of New Mexico and the Oil Conservation Commission of the State of New Mexico, have a direct and immediate interest in the outcome of this proceeding which is not completely represented by any other party.

WHEREFORE, the State of New Mexico and the Oil Conservation Commission of the State of New Mexico, respectfully move this Court for leave to intervene, to be heard on oral argument and on brief and otherwise to participate fully in this proceeding as a party in support of the order which the petitioners seek to have reviewed and set aside.

Respectfully submitted,

JOE L. MARTINEZ
JOE L. MARTINEZ
Attorney General
State of New Mexico
Santa Fe, New Mexico

PETER N. CHUMBRIS
Special Assistant Attorney General
State of New Mexico
322 West Gold Avenue
Albuquerque, New Mexico

Dated January 31, 1952.

CERTIFICATE OF SERVICE

The undersigned, attorney for State of New Mexico and the Oil Conservation Commission of the State of New Mexico, hereby certifies that on February 1, 1952, he served a copy of the foregoing motion to intervene upon each of the parties of record in this proceeding by duly mailing

a copy thereof, properly addressed and with postage prepaid, to counsel of record for each of said parties as follows:

Bradford Ross, Esq.
General Counsel for Federal Power Commission
1800 Pennsylvania Avenue, N. W.
Washington 6, D. C.

Stewart G. Honeck, Esq.
Attorney for State of Wisconsin,
William E. Torkelson, Esq.
Attorney for Public Service Commission,
State Capital
Madison, Wisconsin
Petitioners.

/s/ PETER N. CHUMBRIS
PETER N. CHUMBRIS
Special Assistant Attorney General
State of New Mexico, for
State of New Mexico, Et al.

UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11,247 JANUARY TERM, 1952

State of Wisconsin and Public
Service Commission of Wisconsin,
Petitioners,

v.

Federal Power Commission,
Respondent.

Phillips Petroleum Company,
Intervenor.

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No. 11,241 JANUARY TERM, 1952

City of Detroit, Michigan,
Petitioner,

v.

Federal Power Commission,
Respondent.

Phillips Petroleum Company,
Intervenor.

No. 11,242 JANUARY TERM, 1952

City of Kansas City, Missouri,
Petitioner,

v.

Federal Power Commission,
Respondent.

Phillips Petroleum Company,
Intervenor.

No. 11,245 JANUARY TERM, 1952

City of Milwaukee, Wisconsin,
a municipal corporation,
Petitioner,

v.

Federal Power Commission,
Respondent.

Phillips Petroleum Company,
Intervenor.

No. 11,252 JANUARY TERM, 1952

County of Wayne, Michigan,
Petitioner,

v.

Federal Power Commission,
Respondent.

Phillips Petroleum Company,
Intervenor.

Before: Stephens, Chief Judge and Proctor and Bazelon, Circuit Judges, in Chambers

ORDER

Upon consideration of the motion of the State of New Mexico and the Oil Conservation Commission of the State of New Mexico for leave to intervene in the above-entitled cases, to be allowed to file a brief and to be allowed to argue therein, and respondent having informed the Clerk of this Court by letter that it has no objection thereto and it appearing that none of the petitioners herein have filed objections to said motion, it is

ORDERED by the Court that the motion be, and it is hereby, granted.

Dated: MAR 3 - 1952

Per Curiam.

United States Court of Appeals
For the
District of Columbia Circuit

FILED MAR 3 - 1952

JOSEPH W. STEWART
Clerk

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UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

MOTION OF THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA FOR LEAVE TO INTERVENE

The Corporation Commission of the State of Oklahoma (hereinafter referred to as "Corporation Commission") moves the Court, pursuant to Rule 38(c) of this Court, for leave to intervene, to file briefs and to otherwise participate fully in the above proceedings as a party in support of the orders of the Federal Power Commission which petitioners seek to have reviewed and set aside and in support of said motion respectfully alleges:

1. The Corporation Commission is an agency of the State of Oklahoma created by the Constitution of said State and has, among other things, the duty, power and authority to regulate the production and gathering of natural gas for the purpose of preventing waste and protecting the correlative property rights of common owners.

2. The review of the orders of the Federal Power Commission sought by petitioners would directly and materially affect the Corporation Commission in the discharge of its duties to regulate the production and gathering of natural gas.

3. The orders sought to be reviewed were entered in a proceeding before the Federal Power Commission styled, "In the Matter of Phillips Petroleum Company, Docket No. G-1148." The issue adjudicated in said proceeding was whether certain sales of natural gas by Phillips Petroleum Company (hereinafter referred to as "Phillips") and its

operations in connection therewith rendered Phillips a "natural gas company" under the Natural Gas Act and subjected said sales and operations to the jurisdiction and regulation of the Federal Power Commission.

4. Certain of the sales of Phillips involved in said proceeding were sales of gas produced in the State of Oklahoma, namely, sales to Panhandle Eastern Pipe Line Company, Michigan - Wisconsin Pipe Line Company and Cities Service Gas Company. (See Exhibits 9(a), 11(a) and 52.) As to all gas produced in Oklahoma and so sold to said companies, this Corporation Commission regulates the spacing, drilling and plugging of the wells, the production of the gas (and oil, if any), the ratable taking of the gas, the gathering, marketing and utilization of the gas under a comprehensive system of conservation statutes, rules and regulations. (See Exhibits 162, 162-A to 162-R incl.)

5. A portion of the gas sold by Phillips to Panhandle Eastern Pipe Line Company and to Michigan-Wisconsin Pipe Line Company is produced from the Guymon-Hugoton Field located in Texas County, Oklahoma. The Guymon-Hugoton Field is a part of the largest single gas reservoir in the United States which extends from the State of Kansas through the Oklahoma Panhandle into the State of Texas and from which several hundred wells are producing natural gas.

The Corporation Commission after public hearing on the 9th day of December, 1946, entered an order (Exhibit 120) fixing a price of 7¢ per thousand cubic feet as the minimum price which must be realized by the producer at the wellhead for gas produced in the Guymon-Hugoton

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Field. The validity of said order was sustained by the Supreme Court of Oklahoma on January 17, 1950, against attacks by Cities Service Gas Company and Phillips Petroleum Company (220 P. 2d 279). Appeals were taken to the Supreme Court of the United States, which on December 11, 1950, likewise affirmed the validity of said order in *Cities Service Gas Company* v. *Peerless Oil and Gas Company,* 340 U. S. 179, and *Phillips Petroleum Company* v. *State of Oklahoma,* 340 U. S. 190.

6. The gas sold by Phillips to Cities Service Gas Company is casinghead gas produced from the West Edmond Field located in Oklahoma. Pursuant to authority vested in the Corporation Commission by Title 52 O. S., §286.1 *et seq.*, the Commission, after notice and hearing, on the 29th day of July, 1947, entered an order approving the unitization of the West Edmond Hunton Lime Unit. (See Exhibit 52.)

By virtue of said unitization and order, the owners of the numerous oil and gas leases covering the field no longer own the production from their segregated tracts, but in lieu thereof receive a pro rata share of the oil and gas produced from the Unit. Sohio Petroleum Company is the operator of the Unit. By contract with the Unit, Phillips and other owners of two gasoline plants located in the field gather the gas from the wells, process it for its gasoline content and deliver the residue gas to the purchasers (Cities Service Gas Company being one) for the account of the Unit Owners. Phillips is one of the Unit Owners by virtue of its original ownership of leases covered by the unitization. (See Exhibit 52.)

7. This Corporation Commission intervened in the proceeding before the Federal Power Commission *contending that* the sales of Phillips, insofar as they involved gas produced within the State of Oklahoma, were not subject to the jurisdiction of said Commission for the reason that said sales fell within the exception of such jurisdiction stated by the Supreme Court of the United States in *Interstate Natural Gas Company* v. *Federal Power Commission*, 331 U. S. 682, 91 L. ed. 1742, 68 S. Ct. 30, in the following language:

> "Thus, where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach."

8. At the hearing before the Federal Power Commission, Ray C. Jones, a member of this Commission, and Elmer Capshaw, a petroleum and natural gas engineer in the employ of this Commission for 17 years, testified in support of its position. The Corporation Commission filed a written brief with the Federal Power Commission, and the Attorney General of Oklahoma made an oral argument in support of its contentions when the matter was heard by the Federal Power Commission sitting en banc on July 9 and 10, 1951.

9. In its Opinion and Order No. 217 dated August 16, 1951, issued August 22, 1951, the Federal Power Commis-

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sion found that Phillips was not a "natural gas company" within the meaning of the Natural Gas Act, and dismissed the proceeding. As one ground for said conclusion and order the Commission found:

> "In addition to the conclusions we have already reached, the evidence in this case supplies still another type of barrier to our regulation of Phillips' sales. Though technically consummated in interstate commerce, these sales are made 'during the course of production and gathering.' And we expressly find that they are so closely connected with the local incidents of that process as to render rate regulation by this Commission inconsistent or a substantial interference with the exercise by the affected States of their regulatory functions."

Commissioner Draper in a special concurring opinion agreed with this ground of the Commission's decision saying:

> "The second ground for the majority decision is its finding that inconsistency or substantial interference with state regulation would result from regulation of Phillips' sales by this Commission. I agree with this finding. My exhaustive study of the record in this case convinces me that there would clearly result a conflict of the sort contemplated by the language used in the Interstate opinion. Since this is so, as the Court said in that case, 'The jurisdiction of the Federal Power Commission does not attach.' "

10. Petitioners have filed in this Court petitions to review and set aside the order of the Federal Power Commission holding that Phillips is not a "natural gas company" and that its sales of natural gas and other natural gas oper-

ations, including those in the State of Oklahoma, are not subject to regulation by the Federal Power Commission. Said petitions in effect ask this Court to determine that Phillips' sales of gas to Panhandle Eastern Pipe Line Company, Michigan-Wisconsin Pipe Line Company and Cities Service Gas Company and certain of its pipe line operations are subject to regulation by the Federal Power Commission. The regulation by the Federal Power Commission of said sales or of any of the operations of Phillips conducted in connection therewith in the State of Oklahoma would constitute a substantial interference with the exercise of the power of the State of Oklahoma through this Corporation Commission to regulate the production and gathering of such gas. Such regulation would directly interfere with the power of, and its exercise by, the State of Oklahoma through this Corporation Commission to fix and determine the prices at which gas can be produced from wells located within the State for the purpose of preventing economic and physical waste of natural gas and protecting the correlative property rights of all persons interested in common sources of supply. The Federal Power Commission's fixing of the prices to be received by Phillips from such sales would be inconsistent with and constitute a substantial interference with the power of, and its exercise by, the State of Oklahoma through this Corporation Commission to promulgate and enforce rules, regulations and orders relating to the production and gathering of natural gas within the State of Oklahoma for the purpose of preventing or minimizing waste and protecting correlative property rights of owners in common sources of supply. Thus, the relief sought by petitioners, if granted, would substantially and directly affect this Corporation Commission in the dis-

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charge of its powers and duties and it therefore has a direct and immediate interest in the outcome of these proceedings which is not completely represented by any other party.

WHEREFORE, the Corporation Commission of the State of Oklahoma respectfully moves this Court for leave to intervene in these proceedings, to file briefs therein, and to otherwise participate fully as a party in support of the orders which petitioners seek to have reviewed and set aside.

Respectfully submitted,

/s/ MAC Q. WILLIAMSON
Mac Q. Williamson
Attorney General for the
State of Oklahoma
State Capitol Building
Oklahoma City, Oklahoma

/s/ FLOYD GREEN
Floyd Green
Conservation Attorney for
the State of Oklahoma
State Capitol Office Building
Oklahoma City, Oklahoma

/s/ J. PAULL MARSHALL
J. Paul Marshall
Union Trust Building
Washington 5, D. C.

Attorneys for the Corporation
Commission of the State of
Oklahoma

CERTIFICATE OF SERVICE

The undersigned, attorney for the Corporation Commission of the State of Oklahoma, hereby certifies that on the 9th day of April, 1952, he served a copy of the foregoing motion to intervene upon each of the parties of record in these proceedings by duly mailing a copy thereof by depositing the same in the United States mail, properly addressed and with postage prepaid, to counsel of record for each of said parties as follows:

Bradford Ross
General Counsel for Federal Power Commission
1800 Pennsylvania Avenue, N. W.
Washington 6, D. C.

William E. Torkelson
1 W. Wilson Street
Madison, Wisconsin
Attorney for the State of Wisconsin,
Petitioner

Stewart G. Honeck
State Capitol
Madison, Wisconsin
Attorney for Public Service Commission
Petitioner

James H. Lee
Assistant Corporation Counsel
301 City Hall
Detroit 26, Michigan
Attorney for City of Detroit, Michigan,
Petitioner

David M. Proctor
City Counselor

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2800 City Hall
Kansas City, Missouri
Attorney for City of Kansas City, Missouri, Petitioner

Walter J. Mattison
City Attorney
801 City Hall
Milwaukee 2, Wisconsin
Attorney for City of Milwaukee, Wisconsin, Petitioner

Gerald K. O'Brien
Prosecuting Attorney, County of Wayne
3400 Guardian Building
Detroit 26, Michigan
Attorney for Petitioner

Hugh B. Cox
701 Union Trust Building
Washington 5, D. C.
Attorney for Phillips Petroleum Company, Intervener

Rayburn L. Foster
c/o Phillips Petroleum Company
Bartlesville, Oklahoma
Attorney for Phillips Petroleum Company, Intervener

Harry D. Turner
c/o Phillips Petroleum Company
Bartlesville, Oklahoma
Attorney for Phillips Petroleum Company, Intervener

Warren M. Sparks
c/o Phillips Petroleum Company

Bartlesville, Oklahoma
Attorney for Phillips Petroleum Company
Intervener

Price Daniel
Attorney General for the State of Texas
Charles E. Crenshaw
Everett Hutchinson
Assistant Attorneys General for the State of Texas
Capitol Station
Austin, Texas
Attorneys for Railroad Commission of Texas,
Intervener

Joe L. Martinez
Attorney General for the State of New Mexico
Santa Fe, New Mexico
Attorney for Oil Conservation Commission
of the State of New Mexico
Intervener

/s/ J. PAULL MARSHALL
Attorney for the
Corporation Commission of the
State of Oklahoma

IN THE
UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

ANSWER OF STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF STATE OF WISCONSIN TO MOTION OF THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA FOR LEAVE TO INTERVENE

Come now the petitioners in No. 11,247, the State of Wisconsin and the Public Service Commission of Wis-

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consin, by the undersigned, their attorneys, and pursuant to Rules 31 (b) and (g) of this court, and 6 (e) of the Federal Rules of Civil Procedure, for their joint answer to the motion for leave to intervene of the Corporation Commission of the State of Oklahoma, and deny and allege as follows:

1. Respecting the allegations of paragraph 2 of said motion specifically deny that the review of the orders of the Federal Power Commission sought by petitioners would directly and materially affect said Corporation Commission in the discharge of its duties to regulate the production and gathering of natural gas.

2. Respecting the allegations of paragraph 7 of said motion, admit that said Corporation Commission intervened in the proceeding before the Federal Power Commission and made the contention that the sales of Phillips, insofar as they involved gas production within the State of Oklahoma, were not subject to the jurisdiction of the said Federal Power Commission, for the reasons alleged therein; but specifically deny that the sales in question fell within the exception of such jurisdiction as stated by the supreme court of the United States in *Interstate Natural Gas Company v. Federal Power Commission,* 331 U. S. 682. Allege that said sales as a matter of constitutional law are beyond the regulatory powers of the State of Oklahoma, and deny that such sales are encompassed within the words "production and gathering" as used in sec. 1 (b) of the Natural Gas Act. Deny that the sales in interstate commerce of natural gas to the five pipe line companies involved in this proceeding for resale for ultimate public consumption are sales of the type mentioned by the supreme court

in the *Interstate* case, quoted in paragraph 7 of the motion of the proposed intervenor. Alleges that the efforts of a state to conserve natural gas cannot be sustained where it amounts to a regulation of interstate commerce. *Pennsylvania v. West Virginia* (1923), 262 U. S. 553.

3. Respecting the allegations of paragraph 8 of said motion, alleges that the most that was claimed by Oklahoma's witnesses was by Ray C. Jones, member of the Corporation Commission, who testified that regulation of rates of interstate sales "might" conflict with orders of the Oklahoma Commission fixing a minimum price (7-cents Mcf) at the wellhead in the Guymon-Hugoton Field (R. 4533), but conceded that if the Power Commission fixed a rate in excess of that minimum, there would be no conflict. The 7-cent minimum is met when 3-cents of the liquid hydrocarbons are extracted from each Mcf and the residue sold for any price in excess of 4-cents Mcf. Sales by Phillips to Panhandle Eastern at Hansford Plant, which includes gas originating in Oklahoma, at 4.67-cents Mcf have not been declared to be in violation of law. See Exhibit 120-A. Sales to Michigan-Wisconsin Pipeline Company in 1950 are at an average of 8.17-cents Mcf.

4. Respecting the allegations of paragraph 10 of said motion, deny that regulation by the Federal Power Commission of the sales in question in the State of Oklahoma would constitute a substantial interference with the exercise of the power of the State of Oklahoma through the movant Corporation Commission to regulate the production and gathering of gas. Deny that such regulation would directly interfere with the power of, or the exercise by, the State of Oklahoma through movant Commission to fix

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and determine the prices at which gas can be produced from wells located within said state for the purpose of preventing economic and physical waste of natural gas and protecting the correlative property rights of all persons interested in common sources of supply. Deny that the regulation of rates by the Federal Power Commission for the sales in question would be inconsistent with or constitute a substantial interference with the power of or exercise of power by the State of Oklahoma in the respects set forth in said paragraph 10, and in answer thereto repeats and incorporates into this paragraph by reference the allegations set forth in the preceding paragraph 3 hereof.

Wherefore, the State of Wisconsin and the Public Service Commission of Wisconsin move this court for an order denying the motion of the Corporation Commission of the State of Oklahoma to intervene herein.

Respectfully,

VERNON W. THOMSON /s/
Vernon W. Thomson, Attorney General of Wisconsin

STEWART G. HONECK /s/
Stewart G. Honeck, Deputy Attorney General of Wisconsin

Attorneys for Petitioner, State of Wisconsin

WILLIAM E. TORKELSON /s/
William E. Torkelson, Chief Counsel Public Service Commission of Wisconsin

Attorney for Petitioner, Public Service Commission of Wisconsin

April 15, 1952

MOTION OF THE STATE OF TEXAS THROUGH THE RAILROAD COMMISSSION OF TEXAS FOR LEAVE TO INTERVENE

Comes now the State of Texas through the Railroad Commission of Texas represented by Price Daniel, the Attorney General of Texas, and respectfully moves this Honorable Court, pursuant to Rule 38(c), for leave to intervene, to be heard upon brief and oral argument and to participate fully in these proceedings as a party in support of the order of the Federal Power Commission sought to be reviewed and set aside by Petitioners herein. In support of its motion, the Railroad Commission of Texas respectfully shows:

I.

The Railroad Commission of Texas is a governmental agency of the State of Texas, created and existing under the Constitution and laws of the State of Texas, having the power, duty and responsibility to regulate the common carriers and gas utilities doing business within the State and having jurisdiction, authority and responsibility to administer the laws of the State relating to conservation and prevention of waste of natural gas and petroleum and the protection of correlative property rights. The members of the Railroad Commission at the present time are Olin Culberson, Chairman, W. J. Murray, Jr., and Ernest O. Thompson.

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II.

The matters involved in Federal Power Commission order in Docket No. G-1148, sought to be reviewed and set aside herein by Petitioners, directly affect the powers, duties and responsibilities of the Railroad Commission of Texas. In the hearings below the Railroad Commission of Texas filed a Motion For Leave To Intervene and was permitted to do so. The Railroad Commission of Texas, after being permitted to intervene in the hearings below, took an active part in the hearings, introducing evidence showing that any action by the Federal Power Commission asserting jurisdiction over Phillips Petroleum Company would amount to a substantial interference with the duties, powers and jurisdiction of the Railroad Commission of Texas. In support of its position, the Railroad Commission of Texas filed briefs and made oral argument before the Federal Power Commission. At the completion of the hearing, filing of briefs and oral argument, the Federal Power Commission in its opinion and order No. 217, dated August 16, 1951, issued August 22, 1951, found that it did not have jurisdiction over Phillips Petroleum Company. Petitioners have filed in this Court a petition to review and set aside (a) the order of the Federal Power Commission dated August 16, 1951, and issued on August 22, 1951, and (b) the order of the Federal Power Commission of September 28, 1951, denying petition for rehearing. Further, the petitioners herein ask this Honorable Court to determine generally that the Phillips Petroleum Company is a natural gas company within the meaning of the Natural Gas Act.

III.

The Railroad Commission of Texas has an interest in the above entitled proceeding to the extent that the same relates to the production, transportation, use, conservation and prevention of waste, of natural gas within the State of Texas, and the protection of correlative property rights. The relief sought by Petitioners herein, if granted, would substantially interfere with the power of the State of Texas to regulate through the Railroad Commission of Texas the production and gathering of gas. The regulation of prices or sales of gas produced in Texas by Phillips Petroleum Company or other like producers or gatherers of natural gas are not subject to the jurisdiction of the Federal Power Commission in that such sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with production and gathering as to render regulation by the Federal Power Commission inappropriate and a substantial interference with the regulatory functions of the Railroad Commission.

IV.

The State of Texas through its Railroad Commission therefore is directly and vitally concerned over the issues and questions involved in these proceedings. The interest of the State of Texas is not completely represented by any other party herein.

WHEREFORE, the State of Texas through its Railroad Commission of Texas, respectfully moves this Honorable

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Court for leave to intervene herein, to be heard on brief and to be permitted to participate fully in these proceedings as a party in support of the Federal Power Commission order which Petitioners seek to have reviewed and set aside.

Respectfully submitted,

J. PAULL MARSHALL
J. Paull Marshall
Union Trust Building
Washington 5, D. C.

PRICE DANIEL
Attorney General of the
State of Texas

CHARLES E. CRENSHAW
Executive Assistant
Attorney General
Capitol Station
Austin, Texas

Attorneys for the Railroad
Commission of Texas

Dated: April 10, 1952

CERTIFICATE OF SERVICE

The undersigned, attorney for the Railroad Commission of Texas, hereby certifies that on April 10, 1952, he served a copy of the foregoing motion to intervene upon each of the parties of record in this proceeding by duly mailing a copy thereof by registered mail, properly addressed with postage prepaid, to counsel of record for each of said parties as follows:

Bradford Ross
General Counsel for Federal Power Commission
1800 Pennsylvania Avenue, N. W.
Washington 6, D. C.

William E. Torkelson
1 W. Wilson Street
Madison, Wisconsin
Attorney for the State of Wisconsin,
Petitioner

Stewart G. Honeck
State Capitol
Madison, Wisconsin
Attorney for Public Service Commission
Petitioner

James H. Lee
Assistant Corporation Counsel
301 City Hall
Detroit 26, Michigan
Attorney for City of Detroit, Michigan,
Petitioner

David M. Proctor
City Counselor
2800 City Hall
Kansas City, Missouri
Attorney for City of Kansas City, Missouri,
Petitioner

Walter J. Mattison
City Attorney
801 City Hall
Milwaukee 2, Wisconsin
Attorney for City of Milwaukee, Wisconsin,
Petitioner

Gerald K. O'Brien
Prosecuting Attorney, County of Wayne

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3400 Guardian Building
Detroit 26, Michigan
Attorney for Petitioner.

Hugh B. Cox
701 Union Trust Building
Washington 5, D. C.
Attorney for Phillips Petroleum Company
Intervener

Rayburn L. Foster
c/o Phillips Petroleum Company
Bartlesville, Oklahoma
Attorney for Phillips Petroleum Company
Intervener

Harry D. Turner
c/o Phillips Petroleum Company
Bartlesville, Oklahoma
Attorney for Phillips Petroleum Company
Intervener

Warren M. Sparks
c/o Phillips Petroleum Company
Bartlesville, Oklahoma
Attorney for Phillips Petroleum Company
Intervener

Mac Q. Williamson
Attorney General for the State of Oklahoma
State Capitol Building
Oklahoma City, Oklahoma

Floyd Green
Conservation Attorney for the State of Oklahoma
State Capitol Office Building
Oklahoma City, Oklahoma
Attorneys for the Corporation Commission of
the State of Oklahoma
Intervener

Joe L. Martinez
Attorney General
State of New Mexico
Santa Fe, New Mexico

Peter N. Chumbris
Special Assistant Attorney General
State of New Mexico
322 West Gold Avenue
Albuquerque, New Mexico
Attorneys for State of New Mexico, et al.
Intervener

J. PAULL MARSHALL
J. Paull Marshall
Union Trust Building
Washington 5, D. C.

Attorney for the Railroad
Commission of Texas

IN THE
UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11,247

State of Wisconsin and Public
Service Commission of Wisconsin
Petitioners,

v.

Federal Power Commission,
Respondent

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No. 11,241

City of Detroit, Michigan
Petitioner,

v.

Federal Power Commission
Respondent.

No. 11,242

City of Kansas City, Missouri
Petitioner,

v.

Federal Power Commission,
Respondent

No. 11,245

City of Milwaukee,
a municipal corporation
Petitioner,

v.

Federal Power Commission
Respondent

No. 11,252

County of Wayne, Michigan
Petitioner,

v.

Federal Power Commission,
Respondent

STIPULATION WITH RESPECT TO THE MOTIONS TO INTERVENE OF THE STATE OF TEXAS THROUGH ITS RAILROAD COMMISSION AND THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA AND THE MOTIONS OF THE STATE OF WISCONSIN AND ITS PUBLIC SERVICE COMMISSION TO DISMISS THE AFORESAID MOTIONS TO INTERVENE

1. The State of Texas through its Railroad Commission and the Corporation Commission of the State of Oklahoma have petitioned to intervene in the foregoing proceeding and the State of Wisconsin and its Public Service Commission have moved to dismiss the aforesaid motion to intervene.

2. It is agreed by the parties that the withdrawal by the State of Wisconsin and its Public Service Commission of their motions to dismiss the motions to intervene shall not in any way constitute an admission by the State of Wisconsin or its Public Service Commission of the truth of the allegations in the aforesaid motions to intervene, or in any way be determinative of the merits of this proceeding on appeal.

3. It is further agreed that the State of Wisconsin and its Public Service Commission do hereby withdraw their motions to dismiss the aforesaid motions of the States of Texas and Oklahoma to intervene and will not object to the grant of such motions.

Vernon W. Thomson
Attorney General

By CHARLES S. RHYNE /s/
Charles S. Rhyne

Attorneys for the State of Wisconsin

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William E. Torkelson
Chief Counsel

By CHARLES S. RHYNE /s/
Charles S. Rhyne

Attorneys for the Public Service Commission of Wisconsin

Price Daniel
Attorney General

Charles E. Crenshaw
Executive Assistant Attorney General

By J. PAULL MARSHALL /s/
J. Paull Marshall

Attorneys for the Railroad Commission of Texas

Mac Q. Williamson
Attorney General

Floyd Green
Conservation Attorney for the State of Oklahoma

By J. PAULL MARSHALL /s/
J. Paull Marshall

Attorneys for the Corporation Commission of the State of Oklahoma

BRADFORD ROSS /s/
Bradford Ross

General Counsel Federal Power Commission

Attorney for the Respondent

ERNEST W. JENNES /s/
Ernest W. Jennes

Attorney for Phillips Petroleum Company
Intervener

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Stipulation With Respect To The Motions To Intervene of the State of Texas Through Its Railroad Commission and the Corporation Commission of the State of Oklahoma and the Motions of the State of Wisconsin and its Public Service Commission to Dismiss the Aforesaid Motions to Intervene by mailing a copy thereof to each of the following persons at the respective addresses hereinafter specified.

James H. Lee
Assistant Corporation Counsel
301 City Hall
Detroit 26, Michigan
Attorney for City of Detroit, Michigan
Petitioner

David M. Proctor
City Counselor
2800 City Hall
Kansas City, Missouri
Attorney for City of Kansas City, Missouri
Petitioner

Walter J. Mattison
City Attorney
801 City Hall
Milwaukee 2, Wisconsin
Attorney for City of Milwaukee, Wisconsin
Petitioner

Charles S. Rhyne
730 Jackson Place, N. W.
Washington 6, D. C.
Attorney for County of Wayne, Michigan
Petitioner

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Joe L. Martinez
Attorney General
State of New Mexico
Santa Fe, New Mexico

Peter N. Chumbris
Special Assistant Attorney General
State of New Mexico
322 West Gold Avenue
Albuquerque, New Mexico

Attorneys for State of New Mexico, et al
Interveners

Dated at Washington, D. C., May 6, 1952

CHARLES S. RHYNE /s/
Charles S. Rhyne
730 Jackson Place, N. W.
Washington 6, D. C.

UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11,247 APRIL TERM, 1952

State of Wisconsin and Public Service Commission of Wisconsin,
Petitioners,

v.

Federal Power Commission,
Respondent,
Phillips Petroleum Company,
Intervenor,
State of New Mexico and the Oil Conservation Commission of the State of New Mexico,
Intervenors.

No. 11,241 APRIL TERM, 1952

City of Detroit, Michigan,
Petitioner,

v.

Federal Power Commission,
Respondent,
Phillips Petroleum Company,
Intervenor,
State of New Mexico and the Oil Conservation Commission of the State of New Mexico,
Intervenors.

No. 11,242 APRIL TERM, 1952

City of Kansas City, Missouri,
Petitioner,

v.

Federal Power Commission,
Respondent,
Phillips Petroleum Company,
Intervenor,
State of New Mexico and the Oil Conservation Commission of the State of New Mexico,
Intervenors.

No. 11,245 APRIL TERM ,1952

City of Milwaukee, a municipal corporation,
Petitioner,

v.

Federal Power Commission,
Respondent,
Phillips Petroleum Company,

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Intervenor,
State of New Mexico and the Oil Conservation Commission of the State of New Mexico,
Intervenors.

No. 11,252 APRIL TERM, 1952

County of Wayne, Michigan,
Petitioner,

v.

Federal Power Commission,
Respondent,
Phillips Petroleum Company,
Intervenor,
State of New Mexico and the Oil Conservation Commission of the State of New Mexico,
Intervenors.

Before: Stephens, Chief Judge, and Edgerton and Proctor, Circuit Judges, in Chambers.

ORDER

These cases came on for consideration on the motion of the Corporation Commission of the State of Oklahoma for leave to intervene, and were argued by counsel for the State of Oklahoma and for the State of Wisconsin and the Public Service Commission of Wisconsin. Respondent has consented to the granting of this motion and the State of Wisconsin and Public Service Commission of Wisconsin, petitioners in No. 11,247, have filed a stipulation in which they state they will not object to the granting of said motion.

Upon consideration whereof, it is ORDERED by the Court that the motion of the Corporation Commission of the State of Oklahoma for leave to intervene be, and it is hereby, granted.

Dated: MAY 12 1952

Per Curiam

United States Court of Appeals
For the
District of Columbia Circuit

FILED MAY 12 1952

JOSEPH W. STEWART
Clerk

UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11,247 APRIL TERM, 1952

State of Wisconsin and Public Service Commission of Wisconsin,
Petitioners,

v.

Federal Power Commission,
Respondent,

Phillips Petroleum Company,
Intervenor,

State of New Mexico and the Oil Conservation Commission of the State of New Mexico,
Intervenors.

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No. 11,241 APRIL TERM, 1952

City of Detroit, Michigan,
Petitioner,

v.

Federal Power Commission,
Respondent,
Phillips Petroleum Company,
Intervenor,
State of New Mexico and the Oil
Conservation Commission of the
State of New Mexico,
Intervenors.

No. 11,242 APRIL TERM, 1952

City of Kansas City, Missouri,
Petitioner,

v.

Federal Power Commission,
Respondent,
Phillips Petroleum Company,
Intervenor,
State of New Mexico and the Oil
Conservation Commission of the
State of New Mexico,
Intervenors.

No. 11,245 APRIL TERM, 1952

City of Milwaukee, a municipal
corporation,
Petitioner,

v.

Federal Power Commission,
Respondent,
Phillips Petroleum Company,
Intervenor,

State of New Mexico and the Oil
Conservation Commission of the
State of New Mexico,
Intervenors.

No. 11,252 APRIL TERM, 1952

County of Wayne, Michigan,
Petitioner,

v.

Federal Power Commission,
Respondent,
Phillips Petroleum Company,
Intervenor,
State of New Mexico and the Oil
Conservation Commission of the
State of New Mexico,
Intervenors.

Before: Stephens, Chief Judge, and Edgerton and Proctor, Circuit Judges, in Chambers.

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ORDER

These cases came on for consideration on the motion of the State of Texas through the Railroad Commission of Texas for leave to intervene, and were argued by counsel for the State of Texas and for the State of Wisconsin and the Public Service Commission of Wisconsin. Respondent has consented to the granting of this motion and the State of Wisconsin and Public Service Commission of Wisconsin, petitioners in No. 11,247, have filed a stipulation in which they state they will not object to the granting of said motion.

Upon consideration whereof, it is ORDERED by the Court that the motion of the State of Texas through the Railroad Commission of Texas for leave to intervene herein be, and it is hereby, granted.

Dated: MAY 12 1952

Per Curiam

United States Court of Appeals
For the
District of Columbia Circuit

FILED MAY 12 1952

JOSEPH W. STEWART
Clerk

7

TESTIMONY IN DOCKET G-1148 TAKEN BEFORE FEDERAL POWER COMMISSION EXAMINER

[7]

PRESIDING EXAMINER [Edward Marsh]: On May 4, 1950, the Chairman of the Commission designated this Examiner to preside at the hearing required by its order of February 28.

Subsequent to the issuance of the order herein instituting an investigation, several states, state regulatory and other commissions, several cities, and a number of boards and associations have sought and received authorization to participate in this proceeding.

In a few moments I shall ask for the appearances of the parties and participants, including these interveners.

Before doing so, however, I want to announce that I have received from the secretary of the Commission the following memorandum, and I quote:

"March 30, 1951, Memorandum for: Presiding Examiner Marsh, Bureau of Law, Bureau of Accounts, Finance and Rates.

[8]

"For your information, the following is an excerpt from the minutes of a meeting of the Commission held on March 29, 1951:

" 'The Commission had before it the Motion to Limit Issues filed on March 27, 1951, by Phillips Petroleum Company in Docket No. G-1148, but

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decided to defer action thereon until the other parties to the proceeding have had the opportunity provided for by the Rules to file answers to said motion. Upon motion by Commissioner Draper, seconded by Commissioner Wimberly, the Commission (Commissioner Buchanan dissenting) directed that, in the meantime, the Examiner designated to preside at the hearing in said proceeding scheduled to commence on April 3, 1951, be instructed to confine the taking of testimony to Paragraph (A) (i) of the order of the Commission entered October 28, 1948, and issued October 29, 1948.' "

Signed Leon M. Fuquay, Secretary.

That memorandum was accompanied by a memorandum of transmitta[1], which reads as follows:

"Because of time limitations, we will not be able to serve notice of this action upon the participants in the proceeding. I will, therefore, appreciate it if you will have it spread upon the record at the

[9]

opening of the hearing."

* * *

[94]

CARL E. LUTTRING

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. McAllister

Q. What is your full name, Mr. Luttring? A. Carl E. Luttring.

Q. I believe you are employed by the Federal Power Commission? A. I am.

Q. In what capacity? A. Chief Examiner of Accounts in the Division of Accounts.

Q. I was wondering, how long have you been employed by the Federal Power Commission? A. I have been in the employ of the Federal Power Commission for 12 years.

* * *

[100]

Q. Mr. Luttring, have you prepared a statement entitled "Phillips Petroleum Company and Subsidiary Companies Consolidated Balance Sheets Per Books December 31, 1938 to 1950"? A. Yes.

* * *

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 3 FOR IDENTIFICATION.)

* * *

[101]

Q. Mr. Luttring, with reference to Exhibit 3 marked for identification, will you state for the record the source of the figures which you have incorporated on that exhibit? A. All of the figures on Exhibit No. 3 have been taken from the financial reports and records of the company.

Q. Mr. Luttring, did you also prepare the exhibit of Phillips Petroleum Company and subsidiary companies,

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consolidated income account per books, years ended December 31, 1938 to December 31, 1950? A. I did.

* * *

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 4 FOR IDENTIFICATION.)

* * *

Q. Mr. Luttring, by reference to that exhibit will you state what has been the source of the figures which are

[102]

embodied on that exhibit? A. The source of the figures used in Exhibit No. 4 was taken from financial reports of Phillips Petroleum Company in particular.

Q. Were all of the figures embodied on this exhibit figures taken from the books and records of Phillips Petroleum Company as they were made available to you? A. Yes, it was. I might add that the figures hereon are an exact duplicate of those shown in statements of the company which appear in the same form as set up herein.

Q. Mr. Luttring, I direct your attention to an exhibit entitled "Phillips Petroleum Company and Subsidiary Companies Gas Operations Condensed Income Account Per Books Years Ended December 31, 1938 to 1950," and ask you if that was prepared by you. A. Yes, it was.

* * *

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 5 FOR IDENTIFICATION.)

* * *

Q. Mr. Luttring, what is the source of the figures that were referred to in the Condensed Income Account Per

[103]

Books as affected on the exhibit just marked for identification as Exhibit No. 5? A. All the figures appearing on Exhibit 5 are exactly in the same form as they appeared on financial reports and records of the company.

Q. Mr. Luttring, I direct your attention to a statement entitled "Phillips Petroleum Company and Subsidiary Companies Gas Operations Consolidated Income Account Year to Date, December 31, 1949," and ask you if that was prepared by you. A. Yes, it was.

* * *

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 6 FOR IDENTIFICATION.)

* * *

Q. Mr. Luttring, by reference to the exhibit which has been marked as Exhibit No. 6, will you state whether or not those figures shown on Exhibit No. 6 for identification were obtained from the books and records of the Phillips Petroleum Company? A. Yes, they were. The figures on sheet one of Exhibit 6 are an exact duplication of a statement bearing the same title in the company's financial report.

* * *

[104]

THE WITNESS: The figures on pages 2 and 3 of Exhibit No. 6 were all taken from the company's financial

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report and were summarized on these sheets under my direction to support the column headed "Residue" on sheet one.

* * *

[105]

Q. Mr. Luttring, I direct your attention to an exhibit

[106]

entitled "Phillips Petroleum Company and Subsidiaries, Excess Earnings and Tax Savings, Natural Gas Department, Year Ended December 31, 1950," and ask if that was prepared by you. A. It was.

* * *

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 7 FOR IDENTIFICATION.)

* * *

Q. Mr. Luttring, by reference to sheet one of Exhibit 7, which has been marked for identification, will you state what figures on sheet one have been taken from the books and records of the Phillips Petroleum Company and subsidiary companies? A. All figures on Schedule No. 1 of Exhibit 7, except the figures on the line indicated by "Return at assumed rate of 8-1/2 per cent," and the figures on the line indicated by "Excess earnings and tax savings" have been taken from the financial reports and records of the company.

* * *

[111]

Q. Now, as I understand it, Mr. Luttring, the figures that are on Schedule 1 down as far as the reference to eight and a half per cent is concerned, the dollar figures are figures which were taken from the books and records of Phillips and its subsidiary companies, is that right?

[112]

A. That is right.

Q. The cents per Mcf. sold at 14.65. p.s.i.a. that you show on the first column there, does that appear that way on the records or did you formulate that figure in some fashion? A. I believe that figure was filled in by our accounting staff.

Q. Could you state how it was arrived at? Was it obtained this way or can you—

A. By reference to Schedule 3, it will be found that the cents per Mcf sold for outside service is five and thirty-hundredths cents and for inside sales six and twelve-hundredths and for the two combined, it is five point sixty-three hundredths.

Q. That is shown on Schedule 3? A. That is right.

Q. And those are the ones that are reflected in that first column on Schedule 1? A. That is right.

* * *

[150]

W. S. ETCHIESON

was called as a witness, and having been first duly sworn, was examined and testified as follows:

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Direct Examination by Mr. McAllister

Q. What is your full name, Mr. Etchieson? A. W. S. Etchieson.

Q. I believe you are employed by the Phillips Petroleum Company, Mr. Etchieson? A. I am, yes, sir.

Q. In what capacity? A. As gas superintendent.

Q. With headquarters at what point? A. Phillips, Texas.

Q. At Phillips, Texas? A. Yes.

Q. How long have you been with the Phillips Petroleum Company? A. Approximately 16 years.

Q. And during most of that time have you been engaged in work for Phillips in relation to the operation of its gas properties? A. I have, yes, sir.

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Q. Will you state for the record what the general scope of your work embraces? A. Well, my work consists of the operation of our gathering systems and the testing of gas for both potential and hydrocarbon content.

Q. Do you have supervision over all of the producing area that Phillips Petroleum operates in the Panhandle-Hugoton Field? A. Yes, sir.

Q. Does your supervision extend down into Permian Basin? A. No, sir, it does not.

Q. How far do you go in your supervision and where does it end in that direction? A. My supervision ends in Hartley County, which, I believe, is the nearest county to the area you are speaking of.

Q. Your supervision would extend over the areas in which the Sherman plant is located? A. Yes, sir.

Q. The Hansford plant? A. That is correct.

Q. And Borger plant? A. We do not have a plant named Borger plant.

Q. I mean the Borger area, then.

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A. Yes, sir.

Q. That is the Rock Creek plant down in there? A. Yes, sir, that is one of the plants.

Q. It extends over the Stratford area in Moore County? A. We speak of the Stratford area as being in Sherman County.

Q. In Sherman County. Some of the wells are over in Moore County? A. Yes, sir. We have wells in Moore county.

Q. That are connected with that acreage in what is called the Stratford area? A. I believe that is correct, yes, sir.

* * *

[170]

Q. So that the gas out of the Area "A" acreage enters a 24-inch line that extends almost due east or at right angles to the line, the 24-inch line, that goes down towards or past the Cactus Fertilizer plant, is that right? A. The connection from Area "A" to the Sherman gathering system is at a point north of the Cactus plant.

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Q. Do you report the volume of gas into the Sherman Plant each day? A. Yes, sir.

Q. And do you report the volume of gas from the Area A Acreage into the general Sherman system? A. Yes, sir.

Q. That gas that is delivered out of the Area A Acreage cannot go anyplace except to the Sherman Plant. A. That is correct.

* * *

[176]

Q. The Hansford Gas Plant to which gas is delivered to Panhandle is located, you might say, substantially adjacent to the Sherman Plant; isn't that right? A. That is correct.

Q. And the largest delivery that you make to Panhandle is through the Sherman Plant rather than the Sneed Plant; isn't that right? A. The largest delivery that is made to Panhandle Eastern is through the Hansford Plant.

Q. And at the Hansford Plant, how many meters are there located at the input side of that plant to measure the gas coming into the Hansford Plant for processing? A. We do not have master meters on the intake of the Hansford Plant.

Q. You do not? A. No, sir.

Q. Are there any meters from the lines leading into the

[177]

plant at locations which substantially give you the same readings that you would obtain if the meters were located

at the plant location, the plant site? A. I am sure that there are meters on the absorbers at Hansford Plant.

Q. The meters on the absorbers at the Hansford Plant? A. Yes, sir.

Q. And those meters give you substantially the readings that you would obtain had the meters been located as the gas entered the plant? A. They give you a rough estimate of the amount of gas that is delivered into the plant.

Q. Why do you say "a rough estimate"? Wouldn't they give you a fairly accurate estimate? What process takes place before that location? A. If my memory is correct on those meters at the Hansford Plant they are on the discharge side of the absorbers.

Q. The discharge side of the absorbers. A. Yes.

Q. Are there any other meters located at the outlet side of the plant as the gas leads away to the plant to the Panhandle facilities? A. Yes, sir, all the gas is measured on the discharge of the plant as it is delivered to Panhandle Eastern.

Q. Where are those meters located in relation to the

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plant? What is the distance from the plant, or where are the pipes or lines connected leading away from the plant? A. Those meters are located approximately 100 yards from the absorbers at Hansford Plant and are located right near the fence line.

Q. Does Panhandle maintain any meters at that location? A. They do not.

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Q. In other words. the gas delivered by Phillips to Panhandle through the Hansford Plant is measured by the meters that you have just referred to? A. That is correct.

* * *

[184]

Q. I am talking about the flow of gas out of that 22-inch line of Panhandle. All of that gas, the gas from the 27 wells, as well as the gas belonging to Panhandle that is in that 22-inch line comes into your Sneed gasoline plant; is that right? A. It first comes to Panhandle Eastern's compressor station, and then they compress the gas up to approximately 500 pounds for delivery to our Sneed Plant for processing.

Q. I see. Then it goes through Panhandle's compressor station and then out of that into your absorbers, and then back into the continuing line of Panhandle. A. That is right.

* * *

[185]

Q. The acreage, the wells, the lines, and so on, going into the Hansford Plant represent a very close net unit of operation, do they not? There is not any mingling of that gas with any other gas or the introduction of any other gas into that operation as the usual course of operation? A. At the Hansford Plant all the gas delivered into

[186]

that gathering system is delivered to Panhandle Eastern.

* * *

[225]

MASON G. WALTERS

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. McAllister

* * *

[226]

Q. In what capacity are you employed by the Federal Power Commission? A. I am employed as a natural gas engineer in the Division of Rates.

Q. I believe you are a graduate engineer and geologist? A. That is correct; from the University of Pittsburgh.

* * *

[250]

Q. With reference to Exhibit No. 2, Mr. Walters, will you tell us the source from which the information was obtained and whether it was prepared by you? A. The map and Exhibit No. 2 was prepared by me based on the other diagrams that cover this area which has recently been entered as Exhibits 12, 13 and so forth. The purpose of making this map was to show the operations in the Panhandle of Texas in a convenient form. The general pipe line system is shown, and from this sketch one can note the operations in a ready manner.

Q. In the first place, it shows the relative geographic

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locations of various plants. A. That is correct.

Q. Gasoline plants in which gas is delivered to the companies as supplied by Phillips as shown on Exhibit No. 1; isn't that right? A. That is right.

Q. Generally speaking, it shows the major lines indicated on Exhibits 12, 13, 14 and 15, although not all of the lines shown on those exhibits; isn't that right? A. That is correct.

Q. Was there anything else on here that is not on Exhibits 12, 13, 14 and 15 other than the difference in the legend? A. There is nothing on this sketch that is not shown on those sketches outside of the legend.

Q. This map, however, does not contain all of the detailed lines that are shown on Exhibits 12, 13, 14 and 15? A. That is correct.

Q. Is there anything on this map that is not on Exhibits 12, 13, 14 and 15? How about the Borger system? A. That is right; from the Sneed Plant east to the Northern Natural Gas Company Pipe Line, the area between — or rather, from the east line of Moore County to the Northern Natural Gas Company plant running north and south, that part in there has been added in order to tie the Gray Plant area into

[252]

the Moore County area, and so forth.

Q. With respect to that was the detail that is supplied in that area which lies between the points that you have described obtained from maps and drawings supplied to you by Phillips Petroleum Company? A. That was obtained

from maps supplied to me by Phillips Petroleum Company, that is right.

Q. And in the same general way, was it your effort to put in here the general lines and to fill in that area in the same manner in which the general lines are shown in the other areas represented by Exhibits 12, 13, 14 and 15? A. Yes, sir.

Q. From your knowledge and study of the maps that were supplied to you, does this clearly reflect to the extent that the lines are shown, the relative location and lines of Phillips' operations in this area? A. It does.

MR. McALLISTER: I offer Exhibit No. 2 in evidence, Mr. Examiner.

MR. SPARKS: I would like to ask the witness some questions.

* * *

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MR. SPARKS: Then the most you could say for Exhibit No. 2 is that it is a representation of a portion, and in some areas a relatively small portion of the Phillips field lines?

THE WITNESS: I would say that Exhibit No. 2 was made in order to show the general operations of Phillips in that Panhandle area.

MR. SPARKS: Did you intentionally omit any lines from Exhibit 2 which appear on Exhibit 15, the Pampa area, because they carried casinghead gas as distinguished from dry gas?

THE WITNESS: That was not the reason for omitting those lines, no.

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MR. SPARKS: If the Court please, we wish to object to Exhibit 2 as not being a fair representation of what it purports to represent. It is stated to be a diagram of the pipe line facilities used to supply natural gas to El Paso Natural Gas Company at Dumas Plant, Northern Natural Gas Company and Independent Natural Gas Company at Gray Plant, and Skellytown, Panhandle Eastern Pipe Line Company at Sneed Plant and at Hansford Plant, and Michigan-Wisconsin Pipe Line Company at Sherman Plant, and since it clearly appears that it does not represent what it purports to represent, we object to it, and ask that it not be admitted in evidence. I think it is clearly shown that it is so deficient as to have no relevancy or materiality to the proceeding.

MR. McALLISTER: Mr. Examiner, I think the exhibit clearly

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shows that it is, as the witness says, a general reproduction of lines connecting the various plants in relative geographic locations so that by looking at Exhibit No. 2, and by reference to Exhibits 12, 13, 14 and 15, a full and complete picture is given. It only purports to be the general line tying together those various plants and locations as described by the witness. There has been nothing omitted. It was prepared deliberately as it is shown.

PRESIDING EXAMINER: It seems to me that it is competent evidence. It seems to me that it is relevant and material. The weight of the testimony, of course, that is a

different question. Whether the witness has correctly set out the detail, whether the details are complete, of course, that is a different proposition. It does not seem to me that that would go to the relevance of the evidence or its materiality, except to the extent that the weight, perhaps, would be lessened, if it is established that there are errors or inconsistencies, or the map in the final analysis is incomplete.

The objection is overruled.

Does anyone else have any objection to this exhibit?

(No response.)

PRESIDING EXAMINER: Exhibit No. 2 is received in evidence.

* * *

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W. S. ETCHIESON

a witness recalled after having been first duly sworn, was examined and testified further as follows:

Direct Examination by Mr. McAllister

* * *

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Q. What other lines would be required in that area in order that you might deliver out of that area into the

[293]

Dumas plant the full one hundred sixty-five million which would be the normal delivery through that plant to El Paso?

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A. It would require no other lines other than the ones that we have in our system to deliver the full one hundred sixty-five million.

Q. Out of this area to the southwest of the Dumas plant? A. Yes, sir.

Q. I mean you can do that today, then? A. We can do that today, yes, sir.

Q. Now, just northeast of the Dumas plant there is a figure 20 there. Is that also a 24-inch line in that vicinity? A. No, sir. That is a 20-inch line in that vicinity.

Q. That is a 20-inch line in that vicinity. Under normal operations does that line feed gas into the Dumas plant? A. It is pretty hard to say or determine what normal operations are in a system of the size we are trying to operate out there, but gas is fed into the Dumas plant through that 20-inch. It is also fed in from the 24 that extends east of Dumas plant, and also from the 30- and 24-inch lines from the southwest.

Q. Yes. A. It depends on what our operating difficulties are in

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the entire field.

Q. Yes. Well, then, under such conditions the gas in that 24-inch line indicated as a G line there might flow westwardly into the Dumas plant or eastwardly over the Rock Creek plant? A. That is absolutely correct.

Q. I mean it is just the conditions in the system which indicate which way that gas is going to flow, depending upon the required deliveries to the—well, the required deliveries to satisfy requirements out of the various plants? A. Yes, sir.

Q. On this map, Exhibit 14, the line D, there is shown a 24-inch line drawn in ink just south of that dotted line indicating the division between the Hugoton and Panhandle Fields, that 24-inch line tying the D line over to the Line A-8-3. That is a new line, new connection, that has been recently put in there or a new line— A. (Interrupting.) That is a new line compared with this greater part of the other Borger system.

Q. Yes. And then there are some lines there with a spiral over them indicating that they have been removed. Those lines have been taken out, have they? A. Those lines have been salvaged.

Q. Been salvaged, taken out, and there is no longer lines leading across there?

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A. No, sir.

Q. That 24-inch tie across from the D line to the 16-inch line, 12, 16 and 20-inch, indicated by the symbol A-8-3, that 24-inch line was probably laid when there was a large volume of gas coming out of the Area A acreage is that right? The 24-inch line wouldn't be required in there today for the flow of gas out of that, except for the flexibility that you speak of when you might want to take gas under an emergency situation out of the area A? A. It may not be required today and tomorrow we may need it.

Q. Tomorrow you may need it, yes, sir. Have there been any other material changes in there? Would that gas, if you were taking a large volume of gas out of Area A, as you say, when some necessity might arise, would that flow

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through connecting lines over there to what is known as the Carbon line or just what would be the normal route of that line? A. Well, we have various routes, if you will notice on Exhibit 14.

Q. Yes. A. That gas may go in several different directions in finding its way to the markets.

Q. Yes. Your experience has shown that it will flow through there in what volume?

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A. Through this particular 24-inch pipe line?

Q. Yes. A. I don't know, for the reason that that depends upon the pressure that we may hold at the point that the line intersects with this 12-, 16- and 20-inch, and also the pressure that we might be able to maintain at the entrance to that 24-inch pipe line.

Q. In other words, is the pressure from the wells in the Area A generally higher than from the wells in this area here— A. (Interrupting.) The shut-in pressure in the only wells in the Area A acreage are generally higher than wells in the Borger system.

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Q. So that if you held the volume down you could make it out of production from all the wells in there. If you got the pressure in the lines to which the A acreage gas fed too high, it would just blanket out production from the wells, or at least reduce the volume produced. A. If you would shut in the entire system, the entire Borger system, and leave the wells in Area A producing, they would soon

start a back-flow into the wells connected along the line to the Borger area system.

Q. In your day-to-day operations, what would be the volume of gas flowing in that 24-inch line designated as A line in the vicinity of Sneed plant? A. When you say "day-to-day" it is pretty rough for me to estimate just how much gas does pass from day to day through that pipe line.

Q. You do have a rather definite volume into the Sneed plant for delivery to Panhandle; that is right, is it not? A. Yes, sir.

Q. And that would come off of the A line in normal operation? A. Well, those two 24-inch pipe lines at the point that the delivery is made to Sneed plant are all manifold together with valves, and we deliver gas from the 24 from the west, gas from the 24-inch line designated as G, and also A. There may be times, it may happen today, that the boys will have to

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switch so that we will be supplying gas to Sneed plant from either of those lines.

Q. Would it sometimes happen that the gas would flow northwardly through the A or G lines from down in the vicinity of the Rock Creek plant? I mean, does the flow reverse itself in those A and G lines there along the point where you see the arrow pointing to the southwest, to Rock Creek plant? Would the flow in those A and G lines sometimes reverse itself? A. Absolutely.

Q. It does? I mean, in other words, either in the A or G lines from the southwest might be bringing gas up there

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to the Sneed plant, and also across the G line over to the Dumas plant. A. In fact, only last week I recall an operation where it was necessary that we do just that.

Q. Bring the gas from that area down around the Rock Creek plant of the A and G lines through the Sneed plant and across the G line over to the Dumas plant? A. Correct.

PRESIDING EXAMINER: I believe you mentioned southwest a couple of times. I think you meant southeast.

MR. McALLISTER: I did say southwest and I meant southeast. I seem to have that mixed up. Thank you, Mr. Examiner.

By Mr. McAllister

Q. That gas that comes up the A and G lines from the

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vicinity of the Rock Creek plant — do you have Exhibit 2 there before you? A. Yes, sir.

Q. That would be the area down in there around the Sanford plant to the Borger plant and Pantex plant. I am not talking particularly about the plant, but the gas produced in that area would move up the A and G lines, as you have indicated. A. Yes, sir.

Q. This system which you call the Borger system, that is the most complicated system that you have to operate? A. Well, I would not say that. They are all complicated, from an operating standpoint.

Q. Do you have Exhibit 14-A before you?

This is sort of a plant layout, and if you are not familiar with it — I do not want to question you about it. You did say yesterday, I believe, that the gas which you deliver to Panhandle at Sneed goes into their compressor station and then back through your absorbers and then out of the absorbers back into the Panhandle system. A. Gas that we deliver to Panhandle Eastern first goes through our compressor station and is boosted up to approximately 300 pounds and delivered to the intake of Panhandle Eastern's compressors. They then compress it up to around 500 pounds and return it to us for processing.

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Q. Through your own absorbers, and then back into their line? A. Yes, sir.

Q. Would that indicate about how it is handled without in any way trying to indicate by that diagram the exact location of the different facilities as are shown on there?

A. This drawing of our junction where the connection comes off our of our pipe line delivering gas to our Sneed compressors is not quite correct as to detail.

Q. It is a general plan, or does it indicate the manner in which the operations between Panhandle and Phillips are undertaken? This is a general plan, is it not? A. Yes, sir, I believe it is.

Q. And you said Mr. Parish— A. A. W. Paris.

Q. —would be the one who would have supervision over the detailed operations of these plants? A. Yes, sir.

Q. Do you recall in recent months a necessity arising for the delivery of gas out of the Area A acreage into the Borger system? A. No, sir, not recently.

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Q. How long is it since there has been any gas delivered down that way? A. I don't know. I would have to check the records to

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see.

Q. It was quite some time? Within the last year, say, do you have any recollection of gas being delivered down that way? A. I do not have a recollection to the point where we delivered gas from Area A to that system . I know that we have, so I would just have to check our records to see.

Q. Would you do that for me? A. Yes, sir.

Q. If the gas were delivered out of that Area A acreage, would it be metered at any point to determine the exact volume coming out of Area A? A. There is a meter at each individual well, and there are also meters on various tie-overs out of Area A into the Sherman system, and by deduction we could determine fairly accurately the volume.

Q. That is how you would determine the volume of gas flowing into the Borger system out of that area? A. Yes, sir.

Q. As long as the valve is closed southward out of the area, you do not have that problem, but you would know when you opened the valve that then there would be some gas flowing that way. A. Yes, sir.

Mr. McAllister, I might add a little to that last statement.

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If that valve was open today there would be gas from that Area A acreage flowing into the Borger system, but it may

be that our operations would be such that when we opened that valve it would flow in that opposite direction.

Q. It just depends on the pressures in that line and how you were producing? A. Yes, sir.

* * *

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Q. Is there any way that you could describe on the record the mode of operation that you follow which indicates or points to you the necessity of changing the production in one area in favor of another, switching the gas, you might say, from one area to another? Just how does that come about? A. When it becomes necessary for us to switch gas from one area to the other or to decrease the volume in one area and raise the volume in another area, in order to maintain our deliveries, we dispatch men to both areas. Their automobiles are equipped with radios and they at all times are in communication with each other. A man in one area knows what the man in the other area is doing at all times.

Q. In other words, when he cuts in or cuts down one well, then the other man opens up some other wells, why, that enables you to gauge the flow and determine whether or not that would permit you to maintain the total over-all volume of gas to meet, as you call it, the market requirements? A. Yes, sir, that is right.

[307]

Q. What was the situation, I think you mentioned it as having occurred last week, in gas produced down in and around the Rock Creek plant, the Pantex plant and the

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Sanford plant? I just use those names to indicate the area, produce gas there and move it up to the Sneed plant to meet Panhandle's requirements and across through the Dumas plant to meet El Paso's requirements, what was the situation that made that necessary? A. If you will notice on Exhibit 14, the pipe line designated as line A, which is the 24-inch pipe line, extending northwest from Sneed plant to a junction point there some, oh, seven or eight miles, that particular line was out of service to replace several joints of pipe, and during the period that the line was out of service it was necessary that we back flow gas.

Q. You mean by back flow, you mean from that area down around Rock Creek plant up to meet the requirements to Panhandle out of the Sneed plant? A. Yes, sir.

Q. And at that same time did some of that gas move across that line G to the Dumas plant? A. Yes, sir, it did.

Q. And through the Dumas plant to El Paso? A. Yes, sir.

Q. Was the full requirements of Panhandle during that

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time supplied through the back flow of gas through the A line less whatever came off of that 22-inch line to which those 27 wells are connected? A. I'm not sure whether the full requirements was met or not, but I am reasonably sure they were in that particular case.

Q. Substantially those requirements? A. Yes, sir, and it would have to come from the area south and east of Sneed plant.

Q. And at that time what was the volume flowing

through that G line into the Dumas plant off of the A line, on what order was that? A. I just don't know.

Q. I see. Was it a substantial volume, 10 million or more, or do you know? A. No, sir, I do not know.

Q. How much advance notice did you have that that A line northwest of the Sneed plant was going to be out? A. As I recall that, we were advised of a leak on that line the day before the repairs were made.

Q. And that permitted you to arrange for the deliveries which you have described? A. Yes, sir.

Q. And the gas, you said, was moved—you regulated the flow of gas by production so that it did flow in the way

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that you have mentioned? A. Yes, sir, we did.

Q. How did you accomplish that, by producing more gas in the area? A. Yes, sir, unless we were to decrease our markets in what we call the Borger area. That is the only way that we could handle a situation as we did.

Q. Yes. You didn't actually reduce your deliveries, did you, or did you? Was it a combination or do you know? A. As I recall, we made most of our deliveries during that period.

Q. By the opening up of the wells, so to speak? A. Yes, sir.

Q. On Exhibit 14, there is a 24-inch line with a symbol "C" on it. Is that what is commonly or sometimes referred to as the Carbon line? A. Yes, sir, it is.

Q. And there is one point there on the Moore County-Hutchinson County line north of the Sneed plant, there is

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an arrow indicating a southeasterly direction labeled "to Rock Creek". That is a 24 inch line leading all the way into the Rock Creek plant, is it not? A. No, sir. That 24-inch line as a raw gas gathering line does not extend all the way to Rock Creek.

Q. Where does it terminate?

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A. It terminates as a raw gas line at what we call our Johnson plant, and from that point the gas moves through a 20-inch pipe line to the southwest and from the 20-inch into a 24-inch pipe line.

Q. That gas is destined for local deliveries, primarily, or does any of that gas find its way into interstate pipe lines? A. After the gas gets to Johnson and Rock Creek plant, I don't believe we have any sale from those plants to an interstate pipe line company.

Q. It doesn't go to Cities Service or any of those pipe lines of that character? A. No, sir.

Q. Does the gas in that line have a back flow at any time? A. I am sure that we have found it necessary to back flow gas through that line, but I don't recall any particular occasion that we have recently.

Q. When you would back flow that gas in that line, would it be to provide for the delivery of gas back through that line around through the Dumas plant to El Paso? A. It could very well be, yes, sir.

Q. That would be one use that might be made of that line if occasion arose to take the gas out of the producing area around Borger over through the Dumas plant to meet

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requirements of the El Paso Natural Gas Company? A. Yes,sir. Our pipe line system is such that that could be done.

Q. And there have been occasions, as you recall it, when that was done? A. I don't recall any particular time when we have done that, but as many switches and shut-downs as we have made in that system the last 10 years that I have been at Borger, I feel reasonably sure that that has taken place.

Q. And it is an operation that you could clearly visualize if the occasion arose for the movement of gas in that fashion? A. Yes, sir.

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[317]

Q. What popular names do you have assigned to these large diameter lines? Take that A line from the Sneed plant when it is going to be put out of service, when people call you up and when the repairmen said "We are going to knock out

[318]

that line tomorrow morning at 10 o'clock and replace three joints of pipe." What would be his popular name for his designation of that line? A. He would call that the 24-inch gathering line between our Moore County junction and the Sneed gasoline plant.

Q. You would define it in that way? A. Yes, sir.

Q. He would put it in the term "gathering line." A. We speak of all of our pipe line system as a gathering line.

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Q. I know you speak of them as a general term. A. Yes, sir.

Q. But if he were to report that to you he would say the 24-inch line, would he not, he would not put the word "gathering" in there in his advice to you, would he? It would be unusual if he did, would it not? A. No, sir, it would not.

Q. Would you have any other 24-inch line other than that in there? A. That is the only 24-inch line that we have between those two points.

Q. Then he would refer to it as a 24-inch line between those two points, would he not? A. I would say that most of our field men refer to all of the lines as the general line.

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Q. I know they would refer to that, because the nomenclature, the name you assign to them, but I mean if you called a man in the field and you would say to him, "Go to the 24-inch line at such and such a point and see if it is leaking," would you be specific in telling him that there was a gathering line there, in such instructions? A. Oh, I might say our 24-inch pipe line at a certain point.

Q. Sure. Unless there is some reason for you to argue about it, you would not refer to it as anything else than a 24-inch line, a pipe line, or something like that; is that right, as general day-to-day business? A. I would say that most of the time when I refer to those lines I would call it the gathering line.

Q. Do you have any other classification, are they well lines, field lines? A. If we are talking of a connection to some particular well we would say the gathering line or

possibly the line gathering gas from some particular well, a well.

Q. You would call it well line, wouldn't you? A. I might call it both.

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[325]

Q. In your day-to-day operations in talking of these lines are there not some lines that you call trunk lines? A. I usually refer to those larger lines as a main line.

Q. Or trunk line? A. Very seldom would I refer to any line as a trunk line. I usually say main line or main gathering line but never a trunk line.

Q. Isn't it a fact that you told some of our boys that you referred to them as trunk lines? Do you recall that? A. I don't recall it.

Q. You don't recall it? A. It is possible that I have referred to some of the lines as trunk lines, but it is very seldom that I do that.

Q. Do you know also of another term that you use commonly as lease lines, where a line leads off of one of those major lines into a well or onto a certain lease?

[326]

A. I usually refer to a line from one of our main lines to some particular well as the gathering line to that well.

* * *

[327]

Cross-Examination by Mr. Sparks

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[338]

Q. Through the various loops that you have delineated here and as appears from the map by the junctures of the various lines, may the gas flow on occasion at both directions? A. There is a point on each line where the gas, I think, flows in two directions.

Q. You mean at any one time it necessarily flows in two directions at some point on the loop? A. On occasions it almost has to be that way.

[339]

Q. Is it, therefore, possible to determine accurately as to all of the gas that is delivered to El Paso Natural Gas Company from the Dumas plant and to Panhandle Eastern Pipe Line Company at the Sneed plant, the source or wells from which all of that gas is produced? A. I wish it were possible that I could do that, but that is a problem that it would be impossible for me to solve. I cannot tell how much of the gas from any one well went to Dumas plant either through the 24 or the 20 or the 30-inch. I feel I can get fairly close to the amount of gas that is handled through one line at some given time, but over a period, why, it is pretty rough to do.

Q. You mentioned, I believe, that sometimes variations in market requirements of the purchasers occasioned variations in operations of the system. Are there other reasons why, on occasion, you have variations in the operations of the pipe line system, and therefore varying flows of gas through those loops? A. Yes, sir. I think I mentioned yesterday that in addition to the fluctuation in deliveries

to our markets, that the atmospheric temperatures had a bearing on the transportation of gas, and also the testing programs that were set out by the Railroad Commission, and our own testing program for informational purposes, line breaks, and there may be others, but I do not recall right now.

* * *

[370]

KENNETH S. ADAMS

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. McAllister

Q. Mr. Adams, what is your full name, please? A. Kenneth S. Adams.

Q. I believe you are president of the Phillips Petroleum Company? A. Yes, sir.

* * *

[407]

Q. Now I show you the annual report for 1949, Mr. Adams, and referring to Page 10, the following appears:

> "Delivery of natural gas"—no, I am going to start at the beginning at the top—"Gas sales for the hear, exclusive of company requirements were 418 billion cubic feet as compared with 391 billion cubic feet during 1948. If gas gathered and processed or consumed by the company in its various manufacturing and other

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operations were considered as a part of the 1949 total sales volume, this latter figure would be 550 billion cubic feet, an average of more than one and one half billion cubic feet per day. Gross income from sales to outside purchasers was 20 million 4 hundred thousand dollars, an 18 per cent increase over the 1948 income of 17 million 3 hundred thousand dollars.

[408]

"Delivery of natural gas to Michigan-Wisconsin Pipe Line Company started about the first of November, in performance of the company's contract to supply the total gas requirements of this line. This project makes gas from Texas and Oklahoma available to markets in the States of Michigan and Wisconsin. The immediate daily requirements approximate 190 million cubic feet, with expectations of an increase to 340 million cubic feet daily in the near future. Like several similar projects, this development is the outgrowth of a long-range program conceived nearly a quarter of a century ago for the acquisition of low cost natural gas reserves in the Texas Panhandle and Texas-Oklahoma Hugoton Field. The company's resources of natural gas located in these fields, the Gulf coastal area, the Permian Basin of West Texas and New Mexico and elsewhere are generally recognized as being the largest held by any company in this country."

Now, that appears under the heading natural gas on Page 10 of the annual report for 1949, which you signed and

with which you were familiar at the time you signed the report, is that right, Mr. Adams? A. Yes, sir.

Q. And as far as you know and as far as you knew then it was true and correct, the statements made therein?

[409]

A. Yes.

Q. Now I direct your attention to a title or description on Page 11 of that annual report, Mr. Adams, which shows a gasoline plant, certain piping structures—that is the picture—and under the picture this appears:

> "This West Texas gasoline plant and similar plants extract the liquid content and prepare gas for delivery to the El Paso Natural Gas Pipe Line for transmission to California. Other company plants supply natural gas to pipe lines serving Michigan, Wisconsin and other northern states."

You were familiar with that statement at the time it appeared in the annual report, were you not, Mr. Adams? A. I think I was.

Q. Well, you signed it and your stockholders and everyone else assumed it represented as being a true and full statement regarding the matters referred to, is that right? A. I would think so, yes. I don't recall it.

Q. But I correctly read the statement from the annual report? A. You did, yes, sir.

Q. And you signed that annual report? A. Yes, sir.

Q. Now we come to the 1950 annual report, Mr. Adams,

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[410]

and under the heading "Natural Gas" on Page 10 of the annual report, which, I believe you signed as president of Phillips Petroleum Company, did you not, Mr. Adams? A. Yes, sir.

Q. And this statement appears:

"The volume of gas sales by Phillips reached a record level in 1950. Exclusive of company requirements, sales totalled 504 billion cubic feet, an increase of 86 billion cubic feet over the previous year. Gross income from sales of gas to outside purchasers was 26 million dollars, an increase of 27 per cent over 1949. The volume of gas gathered and processed or consumed by the company in its various operations, when added to the volumes delivered to outside purchasers, totalled 630 billion cubic feet, an average of more than 1.7 billion cubic feet per day. Deliveries of natural gas to Michigan-Wisconsin Pipe Line Company were being made at the increased rate of approximately 280 million cubic feet daily at the end of the year. The sale to El Paso Natural Gas Company of an additional 30 million cubic feet of gas per day for ultimate delivery to California started during the summer from the company's West Texas and New Mexico plants, bringing the total daily deliveries to that purchaser to 395 million cubic feet.

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"A contract has been consummated with Texas-Illinois Natural Gas Pipe Line Company to sell approxi-

mately 26 million cubic feet of gas daily from Phillips' reserves in the Chocolate Bayou field, Brazoria County, Texas."

MR. SPARKS: I believe it is 28, is it not, Mr. McAllister?

MR. McALLISTER: It is. Did I say something else?

MR. SPARKS: You said 26.

MR. McALLISTER: 28 is correct. "This gas will be delivered to the Chicago area by a pipe line now being constructed by the purchaser."

That statement appears in the annual report for 1950 as I read it, does it not, Mr. Adams? A. Yes, sir.

Q. And this is sufficiently near to the present time, is it not, that you can say that you do know that those statements are correct and that they were so known to you as being correct at the time you signed this annual report? A. Yes, sir.

Q. Mr. Adams, I have before me a prospectus of the Phillips Petroleum Company and the date of issue of this prospectus as shown on the bottom of the first page is August 16, 1938, and it relates to the issuance of 25 million dollars worth of Phillips Petroleum Company convertible

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three per cent debentures due September 1, 1948, and on Page 42 of that document appears the signature—it is printed—Phillips Petroleum Company by K. S. Adams, presi-

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dent. I just want to make one point clear. This is a matter —the matter I am inquiring about is a sentence or a statement contained on Page 12, and I'll read it.

MR. SPARKS: Could I see it before you read it into the record, please?

[413]

MR. McALLISTER: The statement therein contained on page 12 is this:

> "Natural gas purchased by Independent Natural Gas Company from the company within the State of Texas is transported by that company and delivered to Northern Natural Gas Company at Skellytown wholly within the State of Texas. The company understands that upon taking title to the gas so delivered, Northern Natural Gas Company transmits this gas to points outside the State of Texas."

BY MR. McALLISTER:

Q. Whether or not you recall that statement as being in that prospectus, as being the prospectus for the issuance of securities, you were satisfied, and you knew at the time you signed it that it was a correct statement, did you not, Mr. Adams? (Handing document to witness.) A. I would not have signed it if I thought there was any mis-statement in the prospectus.

Q. And since your recollection might not now be as clear as to exactly what you had in mind then, you do know at that time you would not have signed it had it not been a true statement? A. Certainly not.

* * *

[445]

Q. I call your attention to a contract between Michigan-Wisconsin Pipe Line Company and Phillips Petroleum Company under date of the 11th day of December 1945, which has been identified in this record as Exhibit 11-A, and direct your attention to Article I, Section 3, Sub-paragraph (d). That provides, does it not, Mr. Adams, the failure of buyer, which

[446]

is Michigan-Wisconsin Pipe Line Company, to commence on or before January 1, 1948, the acceptance of deliveries of gas hereunder for delivery by buyer, which is Phillips Petroleum Company, for resale in one or more municipalities east of the Missouri River. A. That is correct.

Q. And the paragraph into which that fits begins by reading:

> "However, upon the happening of any one of the following contingencies, to-wit," then there are paragraphs a, b, c, and d which you have read.

Then the quoted part goes on:

> "Seller," which is Phillips Petroleum Company, "shall have the right to terminate this contract by written notice to be delivered to buyer not later than 30 days after the happening of such contingency."

That is what the contract says, does it not? A. Certainly.

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Q. By supplement agreement, which is agreement N in this record, entered into on the 16th day of October 1946, between Michigan-Wisconsin Pipe Line Company and Phillips Petroleum Company, it is provided that Article I, Section 3, Sub-paragraph (d) shall be amended by striking therefrom the date January 1, 1948, and substituting in lieu thereof the date of January 1, 1949.

[447]

That is the paragraph to which we previously referred; is that right? A. Yes.

Q. So that under the original contract as modified by this agreement of October 16, Michigan-Wisconsin was under obligation to begin taking gas for resale east of the Missouri River on or before January 1, 1949. A. That is correct.

Q. And upon failure of Michigan-Wisconsin so to do, Phillips had the right to cancel the contract by giving 30 days' notice to Michigan-Wisconsin? A. That is as I understand it.

Q. Do you now recall that on or about March 15, 1948, Michigan-Wisconsin Pipe Line Company suspended construction and did not then thereafter resume construction until about June 1, 1948? A. I don't recall that they ever stopped construction once they started. They may have.

MR. McALLISTER: I have here a letter that I propose to read into the record, Mr. Examiner.

(Document handed to Mr. Sparks.)

MR. SPARKS: No objection.

MR. McALLISTER: It is a letter on the letterhead of Michigan-Wisconsin Pipe Line Company, bearing date of

March 24, 1948. It is addressed to Mr. A. B. Hiatt, Staff Director,

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Phillips Petroleum Company, Bartlesville, Oklahoma.

"Dear Mr. Hiatt:

"During your recent visit you indicated a wish to be advised of the progress of construction of the Michigan-Wisconsin pipe line. As of March 15 the laying of pipe has been suspended, although pipe fabrication and its shipment to the site will continue as previously scheduled.

"When work is resumed I will arrange for Mr. Poor of Ford, Bacon & Davis in Kansas City to advise you regularly of the progress.

"Yours very truly," signed C. T. Dickeman, Executive Vice President, with carbon copies to Mr. V. H. Kyle and Mr. W. B. Poor.

A letter of that character addressed to Mr. Hiatt and retained in the correspondence file from the Phillips Petroleum Company, the information being supplied by Michigan-Wisconsin, would indicate that there was that suspension of construction, would it not, Mr. Adams?

THE WITNESS: In accordance with the letter, yes.

BY MR. McALLISTER:

Q. Do you recall, Mr. Adams, in the early part of June 1948 you had a conference in New York with Mr. William G. Woolfolk of the Michigan-Wisconsin Pipe Line Company, wherein you discussed with him the further extension of time

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[449]

beyond January 1, 1949 as the time when Michigan-Wisconsin was obligated to begin taking gas from Phillips for resale by Michigan-Wisconsin east of the Missouri River? A. I recall that I had a conference with Mr. Woolfolk in New York. I do not recall the exact time of the conference.

* * *

[450]

Q. Do you recall having a conference at a later date in July with Mr. Woolfolk in Kansas City? A. Yes, sir.

Q. Wherein the question of the extension of the deadline or the date upon which they would be required to begin taking gas was discussed? A. Yes, sir.

Q. And in that conference you were accompanied by Mr. Don Emery, general counsel of Phillips Petroleum Company; isn't that right? A. Yes. We had one other man with us, and I believe it was Mr. Rippel, but I am not sure. I believe it was. We could find out very easily.

Q. Can you find out by asking him here now. I do not have it, and I would like to know. A. Surely.

MR. SPARKS: Is he here?

THE WITNESS: It was not Mr. Rippel, it was Mr. Hiatt. I knew I had somebody there with me because I could not get myself along with that crowd without having lots of help.

BY MR. McALLISTER:

Q. In addition to Mr. Woolfolk, there was Mr. John Durn

[451]

of Michigan-Wisconsin, do you remember that? A. He had a man or two with him and I just do not remember who they were. I never met them before.

Q. Mr. H. B. Munsell and Mr. Thomas K. Humphrey, general counsel for United Light and Railway Service Company. A. I remember the latter two men being there. The other gentlemen I do not recall.

* * *

Q. And the one principal point that was involved in the discussion at that conference was the extension of the date that we have been discussing; isn't that true? A. No, not as I recall. The main thing that they were after, as I recall, was more gas, more gas reserves. I think at the same time we discussed an extension of the contract, and I do not know whether or not we extended the contract at that particular time. I would have to refer to the contract as it was written, as far as starting to take gas is concerned.

Q. The contract was changed, let us put it that way, or amended, whatever you want to call it, as the result of that conference, or following the conference, let us put it that way,

[452]

because I presume there were other negotiations also; isn't that right? A. Yes, we discussed the additional sale of gas.

Q. To go all the way on it, the price, the volume, the dates of delivery? A. The latter two — the date of delivery is the only one of the three that I am confused on in my

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own thinking. I just do not recall. There have been so many amendments, I just do not recall the exact date.

Q. I show you a contract between Michigan-Wisconsin Pipe Line Company and the Phillips Petroleum Company, bearing date of August 9, 1948, and marked for identification in this record as Exhibit 11-O. I wish you would look at that, Mr. Adams, and satisfy yourself that that is the contract that you have in mind which embodies the matters discussed or agreed upon at this conference in Kansas City.

* * *

[453]

THE WITNESS: I am down to two of them. I see that we gave more gas acreage, we extended the time from January 1, 1949 to July 1, 1949, that they had to start taking gas. Also the commitments of the volumes of gas they had to take was extended. Next is the price provision which was changed. Those are the three that I recall.

BY MR. McALLISTER:

Q. The price was increased in that contract? A. The base price, as I understand, was increased in the contract.

* * *

[455]

Q. Mr. Adams, during the course of your testimony

[456]

on Friday of last week, reference was made to a certain conference which you had with Mr. Woolfolk of the Michigan-Wisconsin Company in New York and later in Kansas City, regarding the renegotiation of a contract between

Phillips and Michigan-Wisconsin for the supply of a volume of gas for a pipe line which at the time of the conference was under construction. I am not sure that this fact was made plain on the record, but it is a fact, is it not, that at the conference in New York he related to you their predicament due to shortage of steel and what-not, and their fear that they would not be able to meet the deadlines in that contract of December 11, 1945, with Phillips, which is Exhibit 11A in this record. Is that a fact? He did set those facts out and stated to you, did he not, that he was apprehensive of their ability to meet those deadlines? A. Yes. As I recall, that conversation occurred.

Q. And he also advised you that he was desirous of having the contract modified by extending the time within which certain particular specified conditions were to be met by Michigan-Wisconsin? A. Yes, I think he covered that subject matter in that conference that we had in New York.

Q. Do you have any recollection at this time of the miles of pipe which Michigan-Wisconsin had laid during the period up to and through July preceding the execution of the

[457]

contract or the amended contract on August 9, 1948? A. I don't have in mind the exact miles. However, I recall our men in our gas division so advised me that in their best judgment they were going to be able to comply with their contract requirements as far as construction of the line was concerned.

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Q. But Mr. Woolfolk and the Michigan-Wisconsin people were not at all certain of that and they didn't want to be faced with the possibility of missing the deadline and losing their contract, isn't that true? A. I think they were more disturbed over it, naturally, than we were.

Q. Would it refresh your recollection any to say that the Michigan-Wisconsin people in a proceeding before the Securities and Exchange Commission showed that as of July 30 of 1948 they had 160 miles of line completed? A. No. This is the first time that I knew that—

Q. (Interrupting.) That any figure of that kind—
A. (Interrupting.) That is correct.

* * *

[466]

MR. McALLISTER: Just to tie it in a wee bit closer, Mr. Examiner, the contract of August 9, 1948, which is Exhibit 11-0 in this record, in paragraph five it has this to say:

> "It is understood the construction program of the pipe line described in said contract, dated December 11, 1945, may not permit Michigan-Wisconsin to commence the acceptance of deliveries of gas under said contract by the date specified in sub-section (d) of section 3 of Article I of said contract as amended, namely, January 1, 1945, or to accept deliveries of volumes of gas under said contract, as amended, October 16, 1946. In order to afford Michigan-Wisconsin relief in this respect, it is hereby agreed between the parties hereto that"—and the contract goes on to provide for the

changes that I have mentioned with respect to the provisions of the Power contracts relating to deadlines.

* * *

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MR. McALLISTER: May I read the document into the record, Mr. Examiner?

PRESIDING EXAMINER: Yes.

The objection is overruled.

MR. McALLISTER: The heading is:

"In the Matter of Application Number 2 in Response to the Commission's Order of December 30, 1947 The United Light and Power Company, et al. (File Nos. 59-11, 59-17, 5 -25)

"Exhibit E."

"1. State the number of miles of pipe in the ground at July 30, 1948.

"160 miles.

"2. State the number of miles of pipe on the right-of-way or at a contiguous railhead.

"96 miles.

"3. State the approximate date when construction was resumed following the shut-down in the first quarter of 1948.

"June 1, 1948.

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"State the approximate present rate of construction.

"While the daily rate of construction varies and has recently exceeded the average figure, the management estimates that construction will proceed at an average rate of three miles per day."

Upon this appears in the stamp of the Securities & Exchange Commission:

"U. S. Securities & Exchange Commission, received August 4, 1948, 4th Mail, Docket, Mail & Files."

The stamp on the lower left-hand corner:

"Docket No. 54-25, Exhibit No. E, Respondent's, In the matter of The United Light & Power Co., Date, 7/28/48, Witness.....Reporter....."

I have examined the testimony in that case, and I note that on that date, July 28, 1948, Mr. Woolfolk did testify, and this Exhibit E designation was reserved for a document upon which he was to supply certain specified information. I think this is all of the information he was asked to supply. I have not checked that.

[469]

MR. SPARKS: May I ask counsel if the record there showed the distance from the beginning point of the pipe line in Texas to Maryville, Missouri?

* * *

[470]

MR. McALLISTER: We have a note in one of our records here of 455.5 miles. That is to Maryville.

MR. SPARKS: That is right.

MR. McALLISTER: And Maryville, I think, has been accepted and recognized by all parties as the first municipality east of the Missouri River along the route of the Michigan-Wisconsin Pipe Line where it would be possible for Michigan-Wisconsin Pipe Line, after constructing its pipe, to deliver gas for resale to the public.

MR. SPARKS: East of the Missouri.

MR. McALLISTER: East of the Missouri River.

MR. SPARKS: That is correct.

MR. McALLISTER: And that was the specification in the contract of December 11, 1945, between Phillips and Michigan-Wisconsin.

MR. SPARKS: That is correct.

PRESIDING EXAMINER: That is Maryville, Missouri, isn't it?

MR. McALLISTER: Maryville, Missouri.

Mr. Sparks, we have a problem of proving some of these documents that were supplied from the records of Phillips. It is not a difficulty but it is merely working out a

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reasonable way to do it. This exhibit 21, we put in certain excerpts from the minutes of the board of directors, and I am wondering if it is going to be necessary for me to show that that was supplied by Phillips.

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MR. SPARKS: No, sir, it will not. We will not agree to the admissibility of it, but—

MR. McALLISTER (interrupting): But it is a true copy of the minutes insofar as they are reproduced.

MR. SPARKS: Correct.

MR. McALLISTER: I am going to offer that Exhibit 21 at this time, Mr. Examiner, because I propose to ask Mr. Adams certain questions regarding it.

MR. SPARKS: If the Examiner has the exhibit before him—

PRESIDING EXAMINER: Yes, I do.

MR. SPARKS: You notice that the first page of the exhibit merely recites the place at which the meeting of the board of directors was held and the parties present and that prior minutes were reviewed.

The second and third pages of the exhibit relate to a report made by the president of negotiations of certain amendments to the gas sales contract with Michigan-Wisconsin. It is short and obviously it, on its face, relates to nothing more than rates and to a report of an estimated increased income to the company over the life of the contract as a result

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of the amendment.

We object to it because it does not have any relevancy or materiality to the jurisdiction of the Federal Power Commission, and, as a matter of fact, I don't think it has any relevancy if we were hearing also the rate issue, because it does not purport to reflect any past expenses, cost, profits or otherwise.

MR. McALLISTER: Well, Mr. Examiner, it is merely part and parcel of the line of factual proof relating to the position of Phillips Petroleum Company in bringing about the modification of the contract.

Of course, you can't try a jurisdictional case without having facts and figures. You'll have dollar signs and feet and miles and Mcf and everything else in the documents which relate vitally to the matters which bear upon questions of jurisdiction.

* * *

[505]

Q. As a matter of fact, Mr. Adams, the price that you obtained in the contract of August 9, 1948, the contract with Michigan-Wisconsin, specified the highest contract price for natural gas than had ever been realized by Phillips in any contract for a supply of gas for an interstate pipe line; isn't that true? A. It might have been, as far as Phillips is concerned. However, we had an original contract, as I recall, with the Michigan-Wisconsin Pipe Line Company that we made in 1945. I do not have the exact figures, but I think the escalation price in July 1948, when the negotiations were carried on in Kansas City, was practically equal to the base price of 7.5 cents that we secured in the contract.

Q. You set that as the base price and included the escalation clauses to go on. A. At that conference we set the base price just about what the escalated price was, as I recall, and sold them gas from 40 or 50,000 acres—I believe we got the same price provision. I believe we had a base price of 7-1/2 and a top of 8-1/2 for the first five-year

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period. I am not exactly correct on those figures, but fairly close.

Q. The base price was 7-1/2, and it was generally accepted that that meant 8-1/2 cents as of that date? A. I think that is fairly close.

Q. Are you talking about 40 or 50,000 acres added—

[506]

A. Additional.

Q. Of that 40 or 50,000 acres added there were 28,000 acres, were there not, that were omitted in error in the original contract? A. That I am not in a position to say, I would not know.

Q. Well, I do not want to go into that. I will ask some of the others. I think it was shown before the Federal Power Commission that though there were some 40 or 50,000 acres more enumerated in the Appendix A to the contract than was enumerated in the Appendix A of the original contract, it was pointed out that of that total additional acreage some 28,000 was omitted in the original contract through error. A. That may be true, because I recall—

Q. I do not know, it was not important. In the second contract it was in—it was not in the second contract—whether or not there was additional acreage, whether it was merely a correction of an error. I will ask someone else. A. I was under the impression that was additional acreage. At least I recall—

Q. It was additional acreage technically. A. The thing that was worrying Mr. Woolfolk most in any of the nego-

tiations that I had with him is "where am I going to get some additional gas reserves?"

Q. Do you have any idea how many acres were embodied in the first contract?

[507]

A. Acres? No, I don't recall acres, but I think we dedicated close to around what we estimated to be around three trillion cubic feet of gas reserves, three to four trillion.

Q. Three trillion I think was close. The acres, as I have noted them in one of the exhibits that has been marked for identification, show 647,000 acres. A. Getting back on this—

Q. Let me finish this point—647,000 acres. A. Are you asking me if that was the figure?

Q. I mean if it is, 40,000 is a relatively small percentage of added gas. A. That is 10 per cent, it is awfully close, a little less than that.

Q. Around 7 per cent, is it not? A. Well, 7 per cent.

* * *

[645]

W. S. ETCHIESON

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

[646]

Direct Examination (Resumed) by Mr. McAllister

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[657]

Q. I think that was another question. I think I did ask you that. At one point I know I asked you that. That was Page 283, and that was to check whether there were lines from wells located in the State of Oklahoma tying into Line H between the location of the future site of Sherman booster station into the Sherman plant. If you have that, I'll take that. We can take that up here. A. There are no lines connecting to Line H between the future site of Sherman booster station and the Sherman plant.

[658]

Q. Either from wells located in the State of Texas or in the State of Oklahoma? A. That is right.

* * *

[734]

Q. Let's get at it this way, then, as far as the Sherman plant is concerned, do you have frequent changes in the mode of operation that is required in order to produce the required volumes of gas through that Sherman plant for Michigan-Wisconsin? A. We make various changes.

Q. I mean important changes. Small ones, yes, sir, but I mean changes that materially affect the volume of gas going through the plant. A. Yes, sir, we do.

Q. And that would range in volume from a maximum down to a minimum of what? Let's take in the year 1950, if that is not too large an order for you. If it is in any of these questions, well, say I can't give it to you for that long a period but I can give it to you for this month or a

shorter period. A. Let me try to answer that in this way, the compressors at Michigan-Wisconsin handle approximately 25 to 30 million feet each, depending on the pressure. Very often during the day and night, they start up an engine or they take an engine off the line. When that happens, it affects our gathering system by that volume that the engine is handling. It is necessary that we go switch the gas either out or in, depending on whether they are starting up or taking off engines.

[735]

Q. You mean out or in, you mean at the well? A. Yes, sir. We have line breaks, as I have mentioned in my testimony. In a system of that size you are going to have a number of those each month.

Q. When that occurs you have to make up the gas out of some other well? A. That is right. Testing programs, I mentioned that. There may be others that I do not recall right at this time.

Q. And each one of those requires some change by cutting in or taking out from the lines some particular well or wells? A. Yes, sir, it requires a switching of gas some place.

Q. Within that system, is it sometimes necessary to take gas from what you have been calling some of your other systems to make up, or is that done very often? A. In the Sherman system we have not taken any gas from any other system since November 1, 1949, I'm sure.

Q. Would the converse of that be true, you have not during that same period switched any of the gas out of

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that Sherman system to one of your other systems during that period? A. That is correct.

Q. Would the same be true of the Hansford system,

[736]

except for a longer period of time probably? A. We have never delivered any gas from the Hansford system to any other system or have we received any gas into the Hansford system from any other system.

Q. When you actually cut the wells off, why, that was an entirely different major operation where you just were changing the component parts of the system? I mean when you took the wells in that southern tier of the Sherman system off, or off the Hansford system. A. Well, those wells were disconnected from the Hansford system—

Q. (Interrupting.) I mean that was a major operation and not the switching we have been talking about. A. That required the laying and connection of pipe lines.

Q. And these changes on the gas delivered through the Sherman plant and your operation of the wells that you have gauged to meet Michigan-Wisconsin's? A. Yes, sir.

Q. I mean the amount of gas that they can take or require in any day or any hour determines what you propose to produce from the various wells in that system? A. Yes, sir.

Q. Is that true in the Hansford system as well? A. That is correct.

[737]

Q. And those are the two most closely-knit systems that you have, are they not, under your supervision? A. I

believe those are the only two systems that are what I consider a closed system, and the Michigan-Wisconsin is dependent entirely upon the delivery from Phillips from the Sherman gathering system and Panhandle Eastern is depending upon the volume they receive from the Hansford plant from the Hansford gathering system only.

Q. The deliveries to Independent Natural Gas Company down through the Gray plant is somewhat similar but not nearly as tight as those two, isn't that true? A. Well, all the gas we deliver to Independent Natural Gas Company is delivered from our Gray gasoline plant.

Q. And are there deliveries of gas out of the Gray plant to others than Independent for Northern? A. Yes, sir. There are other deliveries from Gray plant.

Q. Local deliveries primarily? A. Yes, sir.

Q. I mean gas that is for, you might say, consumption in that relative area? A. Yes, sir.

* * *

[744]

Cross Examination by Mr. Sparks

* * *

[746]

Q. I would like for you to turn to Exhibit 15. That is a map which purports to reflect the Phillips pipe line in Gray, Wheeler and a small portion of Carson County, Texas, is that correct? A. That is correct.

Q. At the lower left-hand side of the map there are a

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[747]

number of lines which come into a larger line running north and south, is that correct? A. Approximately north and south, yes, sir.

Q. Which larger line runs in the vicinity of the Annie Booster? A. That is shown to be a 16-inch line.

Q. In what direction does the gas flow which is produced from wells to the south of the Annie Booster? A. It flows to the north.

Q. Is the gas that flows through the 16-inch line compressed at the Annie Booster? A. No, it is not.

Q. What gas is compressed at the Annie Booster? A. The Annie Booster is a small installation located near the 16-inch line and gathers gas from, I believe, two leases owned by Cities Service Oil Company and Phillips Petroleum Company, and that boosts casinghead gas only.

Q. Gas through the Annie Booster is casinghead gas? A. That is correct.

Q. And is boosted into this 16-inch line, is that right? A. Yes, sir.

Q. Other than the gas through the Annie Booster is a gas which is produced from the wells which are south of the Annie Booster and is dry gas?

[748]

A. The wells located south of Annie Booster are dry gas wells.

Q. And they produce dry gas? A. Yes, sir.

[749]

Q. Now, just above the Annie booster, there is a line which begins near the west line of Gray County as a four-inch line and continues over and joins the 16-inch line with several other smaller lines leading into it. Wells which deliver gas into that line are productive of what type of gas? A. Are you speaking of the line extending due south of the Pampa plant, as shown on this Exhibit No. 15?

Q. No. I am speaking of the line which begins near the west line of Gray County, just a little bit northwest of Annie booster on this map. Do you find it? A. Yes, sir.

MR. McALLISTER: Is that the four-six-eight-ten-inch line going into the 16?

MR. SPARKS: Right.

BY MR. SPARKS:

Q. That is the line, is it not? A. Yes; that line is gathering dry sweet gas.

Q. Is the area from which that 16-inch line gathers gas generally known in the company as the Fairway area? A. It is, yes, sir.

Q. That 16-inch line as it approaches the Pampa plant becomes a 20-inch line, is that correct? A. That is correct.

Q. And is any gas taken from that line into the Pampa

[750]

plant? A. Yes, sir.

Q. There is also a line leading to the Pampa plant directly from the south of the plant, directly south of the plant. Do you find that line? It starts with a line which

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is marked as a four-inch line? A. Yes, sir, I have located it.

Q. The map shows there are a number of stubs off of that line. What type of gas is produced from the wells which are connected to that line? A. Dry sweet gas wells.

Q. And does that line deliver gas directly into the Pampa plant? A. No, sir, it does not.

Q. Does it connect with the, adjoin with the, 20-inch line that comes from the Fairway area? A. It does, yes sir.

MR. McALLISTER: What is the size of that line? It is not shown on this map, that main stem there that runs down.

MR. SPARKS: To the south?

MR. McALLISTER: To the south.

THE WITNESS: It is a six-inch leaving the plant; no, I believe it is an eight-inch leaving the plant and there is some six-inch and four-inch line.

BY MR. SPARKS:

[751]

Q. Does that line from the south connect with the 20-inch line from the southwest prior to the take-off to the Pampa plant? A. There is a junction point there where those lines connect. However, I believe that the line from the south connects downstream from the Pampa plant take-off.

MR. McALLISTER: Connects with what?

THE WITNESS: The 20-inch line from the southwest.

BY MR. SPARKS:

Q. Now, there is also a line that shows to run almost due west from the Pampa plant or east to the plant. What

type of gas is produced from the wells which are delivering into that line? A. That is dry gas.

Q. Does that line deliver gas directly into Pampa plant or into the 20-inch from the southwest? A. It delivers gas direct into Pampa plant.

Q. And all of the gas taken through that line, therefore, is processed at the Pampa plant, is that right? A. It is all being processed there at the present time, when I left the field.

Q. Are there connections whereby that gas can be taken into the 20-inch line and by-pass the plant? A. Yes, sir.

Q. Is that ever done?

[752]

A. I don't recall that it has been done recently.

Q. There is also a line which runs toward the Pampa plant from the southeast, which has marked on it the twelve-sixteen-twenty. What is the area known as from which that line runs? A. The Little Seminole area.

Q. What type of gas is produced from the wells which deliver the gas into that line? A. Casing-head gas.

Q. According to your best recollection, are all of the lines, casing-head lines, in that area shown on the map or can you tell? A. Well, I can't tell for sure, but it doesn't look to me like all the casing-head lines are shown.

Q. The casing-head gas which comes through the 20-inch line from the Little Seminole area, is that gas delivered into the Pampa plant? A. It is all processed at the Pampa gasoline plant.

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Q. Is that gas brought into the plant by compressors? A. It is, yes, sir.

Q. There are also some lines from the north of the Pampa plant shown to run to the plant on Exhibit 15. What type of gas is produced from the wells which are connected to that line? A. Casing-head gas.

[755]

Q. As far as you can tell from an examination of the map, are all of the casing-head lines which deliver gas into that line and through the plant shown on the map? A. I would say that they are not all shown on this map.

Q. That line begins several miles north of the Pampa plant. There is also a line near its beginning point which is shown on the map to run to North plant. There is a break between those two. Are there lines connecting those two lines at this time? A. No, sir.

Q. There is a break in the field between those two? A. Yes, sir.

Q. So that it is not mechanically possible by turning valves or a gauge to flow gas from one line down to the other? A. Not at that point, no, sir.

Q. The gas which flows through from the casing-head wells to the north of the Pampa plant, is that processed at the Pampa plant? A. It is, yes, sir.

Q. Is it brought in by compressors? A. It is.

Q. There are also some short lines lying just to the north and somewhat to the northwest of the Pampa plant.

[754]

What type of gas is produced from the wells delivering into those lines? A. Casing-head gas.

Q. And that is delivered to and processed at the Pampa plant? A. Yes, sir.

Q. Is all of the casing-head gas which is processed in the Pampa plant brought into the plant through compressors? A. Yes, sir. It is necessary that we pull vacuum on the gathering systems in order to bring the casing-head gas into the plant.

Q. I guess we'd have to accept from that the casing-head gas was run through the Annie boosters? A. Well, it is compressed by the Annie booster and then discharged into the high pressure system.

Correct. Is the gas which is produced from the dry gas wells and the gas which is produced from the casing-head gas wells, taken into the plant through various lines, comingled at the plant before being processed? A. It is comingled before it enters the absorbers.

Q. Comingled on the discharge side of the compressors as far as the casing-head gas is concerned? A. That is correct.

Q. What disposition or utilization is made of the residue gas remaining after the extraction of the natural

[755]

gasoline liquid from the gas processed at the Pampa plant? A. The sales at Pampa plant of residue gas is to the Texas-Elf Carbon Company, and that is all the sales I recall.

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Q. Does that include all the dispositions of the residue gas? A. No. There is residue gas used for plant fuel, too.

Q. Is any of it returned to leases? A. Oh, yes, we return residue back to the leases from which we are purchasing raw casing-head gas. Q. Does the company own and operate the system of residue lease return lines through which this residue gas is delivered back to the oil leases for lease fuel? A. Yes, sir.

Q. And lease operations. And they come under your supervision as well as the gathering line? A. They do, yes, sir.

Q. Now, the 20-inch coming from the southwest shows on this map as I read it to connect to the 20-inch from the Little Seminole area, is that correct? A. No, it is not.

Q. The 20-inch from the Little Seminole area delivers directly into the Pampa plant? A. That is right.

[756]

Q. The gas through the 20-inch from the southwest and after the junction with the line from the due south which is not taken off at the Pampa plant flows in a northeasterly direction through a line which is marked "20" on this map, is that right? A. That is correct.

Q. Just to the north of that line there is a mark "Bowers plant", with a square and the line from the 20-inch up to the Bowers plant, is that a tie-over or take-up line from the 20-inch to the Bowers plant? A. There is a take-off line off of the 20-inch into the Bowers plant, yes, sir.

Q. Does that appear to be the approximate position, as far as you can tell from this map of that tie-over line? A. Yes, sir.

[757]

Q. Is a part of the gas carried through that 20-inch line processed at the Bowers plant? A. It is, yes, sir.

Q. Is there other gas processed at the Bowers plant? A. Yes, sir, there is other gas processed at the Bowers plant.

Q. Is all of the other gas processed at the Bowers plant casinghead gas? A. No. There is gas from two or three dry gas wells processed at the Bowers plant.

Q. In addition to that taken off of the 20-inch? A. That is correct.

Q. I notice from the map that there is shown two other lines leading to the Bowers plant. Are there other lines than those shown on the map? A. Yes, sir, there are.

Q. Which lead to the Bowers plant? A. Yes, sir.

Q. Is the casinghead gas and the dry gas which is processed in the Bowers plant co-mingled before being processed through the absorbers? A. It is.

Q. What disposition is made of the residue gas remaining after extraction of the gasoline from the gas at the Bowers plant?

[758]

A. Residue from the Bowers plant goes to the Texas-Elf Carbon Company and also returned to leases, to lease operation, and camp fuel.

Q. Camp fuel? A. Camp fuel.

Q. Where is the Texas-Elf Carbon Company's plant located, just approximately, from, say, the Bowers plant? A. It is located approximately two miles west.

Q. This 20-inch line between the Pampa plant and

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Gray plant continues on up to Gray plant. That is correct, is it not? A. That is correct.

Q. Is the balance of the gas—what utilization is made of the balance of the gas through that line after the deliveries from the line to Pampa plant and Bowers plant? A. The balance of the gas is processed at Gray Gasoline plant.

Q. If you will turn to the right-hand side of the map, I find the line which begins with a 10-inch line running north and south in the lower right-hand corner of the map. Do you find that point? A. I have, yes, sir.

Q. That line is joined by several lines and then turns to the northwest at a point that is marked 12-D on this map. Do you find that?

[759]

A. Yes, sir, I find that.

Q. At that point what is the type of gas that is moved through that line? A. Dry gas.

Q. All of it is produced from dry gas wells; is that right? A. All of it is produced from dry gas wells.

Q From the west, you find the line which is marked 8, and which would appear from the map to be tied into a line running north to Wheeler booster marked 12 and 16 and also tying into this line which is marked 12-D. Is that a correct reflection of the situation? A. Yes, sir, it is.

Q. What is the direction of the flow of gas through that 8-inch line? Does it flow east to the 12-E line, or west up to the 12-16 line? A. That system is all open, and the 8-inch line between the 12-inch line, marked 12-D on Exhibit 15, and the 12-inch and 16-inch lines extending south

from Wheeler booster serves as a loop, and it depends upon the operations at the Wheeler booster, which way the gas will flow through that pipe line.

Q. Is all of the gas in that loop dry gas, or is it casinghead? A. It is all dry gas.

Q. Now, from the east I see a line which is marked

[760]

3-4-6-8. Do you find that? It has a hook on it. A. I do, yes, sir.

Q. What is the character of gas which is gathered through that line? A. It is dry gas.

Q. Is it delivered in the line 12-D? A. No, sir, it is not.

Q. From the junction point of that line with a line from the southeast marked 12-D, there are two lines, are there not, shown to the Wheeler booster? A. That is correct.

Q. Are those lines connected at the point of juncture? A. They are connected on the discharge of the compressor.

Q. Does the gas through both of those lines go through compressors? A. It does.

Q. Directly to the east of Wheeler booster, I find a series of heavier lines. What type of gas is moved through those lines? A. Casinghead gas.

Q. Is that gas taken into the booster? A. It is.

Q. Is it brought in by compressors? A. It is, yes, sir.

Q. To the north and west of Wheeler booster there is a

[761]

small line marked 6. What type of gas moves through that line? A. That is also casinghead gas.

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Q. And is it brought into the Wheeler booster by compressors? A. Yes, sir.

Q. Are there any lines in the ground in the vicinity of the Wheeler booster which do not appear on this map, so far as you can tell from observing the map? A. I don't notice any residue return lines.

Q. I am talking about raw gas gathering lines. A. I would say not all the lines are on the casinghead system or the dry gas system, but I would have to check that.

Q. It is a fact, is it not, that none of the residue return lines appear on the map? A. I have not noticed any.

Q. Is all of the gas which comes into the Wheeler booster compressed at the booster, or is part of it by-passing the compressor? A. It is all compressed at the booster.

Q. And moves in what direction from the booster? A. It moves in a westerly direction.

Q. Through the line marked 20-inch line? A. Yes, sir.

Q. I find on the map just north of that 20-inch line a

[762]

square Lefors plant. That is a gasoline plant of Phillips Petroleum Company, is it not? A. That is correct.

Q. Is any gas taken from the 20-inch line and processed in Lefors plant? A. Yes, sir, there is.

* * *

[766]

Q. What disposition is made of the residue gas after extraction of the natural gas liquids at the Gray plant? A. The residue is delivered to Independent Natural Gas Company.

Q. All of it or part of it?

[767]

A. Part of it. Part of the gas is delivered back to the field for lease operation and development. Part of it is delivered for camp fuel. Part of it is utilized for plant fuel, and we also deliver gas to the Texas-Elf Carbon Company from the Gray plant.

* * *

[775]

Mr. Etchieson, there has been considerable testimony here with reference to sweet and sour gas. Are the two classes of gas, sweet and sour, defined by Texas law? A. Yes, sir, they are.

[776]

Q. What is the statutory definition of sour gas? A. The Railroad Commission describes gas with a hydrogen sulphide content of 1-1/2 grains per hundred cubic feet as sour gas, and gas with a lesser H2S content is classified as sweet gas.

Q. Does that also include a specification with reference to total sulphur content? A. No. The total sulphur content is 20 grains per hundred cubic feet.

Q. In other words, sour gas is gas which contains more than a grain and a half of hydrogen sulphide, H2S, or more than 20 grains of total sulphur content per hundred cubic feet? A. That is correct.

Q. Sweet gas is gas which contains less than those amounts? A. That is correct.

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[777]

Q. The definition, just to get it word for word as it is in the statute, appears in Article 6008, Section 2, Subsection (g). "The term 'sour gas' shall mean any gas containing more than 1-1/2 grains of hydrogen sulphide per 100 cubic feet, or more than 30 grains of total sulphur per 100 cubic feet, or gas which in its natural state is found by the Commission to be unfit for use in generating light or fuel for domestic purposes."

Do you know of any orders of the Railroad Commission with reference to the last provision concerning the finding by the Commission of gas as being unfit for generating light and fuel which would not be sour gas, as otherwise defined by the statute? A. No, I do not.

Q. Subsection (h) provides:

> "The term 'sweet gas' shall mean all natural gas except 'sour gas' and 'casinghead gas' ".

Mr. Etchieson, we sometimes speak of casinghead gas as

[778]

being sour or sweet, do we not? A. That is correct.

Q. But there is no statutory or Railroad Commission classification of casinghead gas as between sour and sweet, is there? A. I know of no classification that the Commission has for determining whether or not casinghead is sweet or sour.

Q. The rules of the Texas Railroad Commission and its conservation laws provide for various uses which can be made lawfully of the various types of gas, sweet and sour

and casinghead, do they not? A. That is correct.

MR. McALLISTER: Might I ask Mr. Etchieson what the basis for classification is as determined by him in his operations, for the casinghead gas that you list as sour and sweet?

THE WITNESS: I consider casinghead gas with a grain and a half of H2S per hundred cubic feet as sour gas.

MR. McALLISTER: Your operations are gauged according to that? What I mean by that is, casinghead gas with that sulphur content would go through a desulphurizer before it would go into a stream of gas destined for further pipe line movement?

THE WITNESS: Yes, it would. If the composite was greater than a grain and a half, we would treat it.

MR. McALLISTER: You might also treat it if the sales

[779]

contract that you had required a lesser sulphur content than 1-1/2 grains per hundred cubic feet?

THE WITNESS: Oh, yes, sir, that is correct.

MR. McALLISTER: Some of your pipe line bore a half grain as a maximum, did they not, or do you know?

THE WITNESS: I don't know. I recall one grain as a maximum, but I am not sure of that half grain.

* * *

[917]

Q. Mr. Etchieson, yesterday you were asked if there were some instances in which Phillips purchased gas but do not go clear to the wells, with its lines. Do you remember that? A. Yes, sir.

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Q. Have you checked into that to determine those instances? A. I have, yes, sir.

Q. Is it common in many cases for you, as a gatherer in the Panhandle Field, to gather gas from the separators on casing-head leases rather than from the well connections? A. Yes, sir; we very often gather gas from the separator.

Q. Who owns the lines from the wells to the separators? A. The producer or the owner of the lease.

Q. Is the separator ordinarily located on the lease? A. It is operated on the lease usually on a central point on the lease.

Q. Are there any other instances than connections to separators where you take gas from wells and do not own the lines clear up to the well?

[918]

A. Yes, sir. I recall two such instances in the Pampa area.

Q. Name one of them. Identify the lease and the owner, producer. A. One of those leases is the Holt Brothers-Cobb lease.

Q. Where is that lease located? A. That lease is located slightly north and east of our Lefors gasoline plant in Gray County, Texas.

Q. How long is the line of the lease operator or lease owner before it delivers it into Phillips' gathering lines? A. It is a distance of approximately three quarters of a mile.

Q. And in what line is that gas delivered? A. The 20-inch gathering line from Wheeler County.

Q. Do you know the size of that line? I mean the lease

owner's line, the three quarters of a mile line. A. I happen to, yes ,sir. It is a two-inch.

Q. And from how many wells is the gas produced which is given through that line? A. Two wells.

Q. You mentioned another instance in the Pampa area. A. Yes, sir. Gathering line extending west from our Pampa gasoline plant, we are purchasing gas from the Service Drilling Company off of the discharge of a field booster, and that is casing-head gas, and I would like to correct

[919]

a statement I made in the record yesterday. I believe I testified that all the gas in that particular gathering system was dry gas. However, this small volume received from the Service Drilling Company is not.

* * *

[934]

Redirect Examination by Mr. McAllister

* * *

[942]

Q. As I take your testimony you have never made a study as to whether or not one line ought to be more particularly classified as a gathering line or classified as a transmission

[943]

line or classified in some other fashion? A. Mr. McAllister, in the field we Phillips boys consider that whole system a gathering system and refer to it as a gathering system.

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[993]

MASON G. WALTERS

[994]

was recalled as a witness, and having been previously duly sworn, was examined and testified further as follows:

Direct Examination (Resumed) by Mr. McAllister

Q. Mr. Walters, you are the same Mason G. Walters that appeared in this case, previously sworn and testified? A. Yes, I am.

Q. Did you have prepared, or prepare yourself, an exhibit which depicts in graphic form the plant layout for the Sherman and Hansford plants, the Sneed plant, the Gray plant, the Dumas plant, the Eunice plant, the Fullerton plant, the Goldsmith plant and the Crane plant of Phillips Petroleum Company, and when I refer to "plant" there, I mean gasoline plant. A. I have had such sketches prepared, yes, sir.

Q. Under your supervision and direction? A. Yes, sir.

MR. McALLISTER: I would like to state for the record, Mr. Examiner, that the graphs that we had prepared, we are advised by Mr. Sparks this morning there have been some changes with respect to three of those graphs, the Sherman-Hansford plants, the Sneed plant, and the Dumas plant, and out of the exhibit we have prepared we have stripped the graphs from that exhibit that we had prepared and we are substituting those with those which were supplied to us this morning by Mr. Sparks. He has been very gracious in supplying us sufficient

[995]

copies so that the graphs with respect to plants that I have named as being supplied by Mr. Sparks to us this morning were not actually prepared by Mr. Mason Walters. We have taken the ones he prepared out in order that we might have now on the record at this time the most up-to-date information on the plant layouts in those plans, the Sherman-Hansford, the Dumas, and the Sneed plants, so that without asking Mr. Walters where they came from may we have a stipulation, Mr. Sparks, that they are as near up to date and as complete and as true and correct as it is possible to make them?

MR. SPARKS: Certainly.

MR. McALLISTER: I am going to ask that the main exhibit which we had prepared be marked for identification at this time as Exhibit No. 45.

PRESIDING EXAMINER: It will be so marked.

* * *

MR. McALLISTER: Before I pass out the corrected sheets, Mr. Examiner, I would like to have these designations provided for the individual graphs or maps:

[996]

I ask that the corrected graph covering the Sherman-Hansford plants be marked for identification as Exhibit 45-A.

PRESIDING EXAMINER: It will be so marked.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 45-A FOR IDENTIFICATION.)

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MR. McALLISTER: I ask that the corrected graph for the Sneed plant be marked for identification as Exhibit 45-B.

PRESIDING EXAMINER: It will be so marked.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 45-B FOR IDENTIFICATION.)

MR. McALLISTER: I ask that the graph for the Gray plant, which is in the folder, be marked for identification as Exhibit 45-C.

PRESIDING EXAMINER: It will be so marked.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 45-C FOR IDENTIFICATION.)

MR. McALLISTER: I ask that the corrected plan for the Dumas plant be marked for identification as Exhibit 45-D.

PRESIDING EXAMINER: It will be so marked.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 45-D FOR IDENTIFICATION.)

MR. McALLISTER: The next four graphs are in the folder, that for the Eunice plant, and I ask that that be marked for identification as Exhibit 45-E.

PRESIDING EXAMINER: That is the Eunice plant?

[997]

MR. McALLISTER: Yes. The graph of the Eunice plant is 45-E.

PRESIDING EXAMINER: That will be so marked.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 45-E FOR IDENTIFICATION.)

MR. McALLISTER: The graph for the Fullerton plant, Mr. Examiner, I ask that that be marked for identification as Exhibit 45-F.

PRESIDING EXAMINER: That will be so marked.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 45-F FOR IDENTIFICATION.)

MR. McALLISTER: I ask that the layout for the Goldsmith plant be marked for identification as Exhibit 45-G.

PRESIDING EXAMINER: That may be so marked.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 45-G FOR IDENTIFICATION.)

MR. McALLISTER: And I ask that the graph showing the plant layout of the Crane plant be marked for identification as Exhibit 45-H.

PRESIDING EXAMINER: That will be so marked.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 45-H FOR IDENTIFICATION.)

MR. McALLISTER: I would like to request, if we may, that when the reporters bind in those graphs we will do it for them so that they will all be impressed within the folder

[998]

in the official file copy.

BY MR. McALLISTER:

Q. Mr. Walters, will you, by reference to Exhibit 45, and particularly to the exhibits marked for identification as Exhibits 45-C, 45-E, 45-F, 45-G and 45-H, state for the record the source from which data and information shown

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on those maps or graphs was obtained. A. The data shown on those maps or graphs which you have just mentioned was obtained from the Phillips Petroleum Company sketches which they supplied to us.

Q. And in preparing these graphs which I have just referred to and identified, did you change and modify the information on the drawings submitted to you by Phillips? A. There have been no changes on those drawings except the legend.

Q. The legend appearing in the lower right-hand corner was provided by you? A. That is right.

Q. And otherwise you have reflected on these drawings, as I have previously identified them, all of the data and information contained upon the drawings submitted to you by Phillips Petroleum Company? A. Yes, sir.

Q. And have you recently checked those to determine whether or not in relation to the drawings supplied or later

[999]

information that you may have obtained, that as far as you can determine from that information which you have, they are complete? A. Yes, sir.

[1000]

Q. Do you have anything further to state, Mr. Walters, with respect to the drawings which have been identified as Exhibits 45C, 45D, 45E, 45F, 45G and 45H? I believe I included 45D in there. That should be eliminated. It should be 45C, E, F, G, and H. If you have no comment to make or observation, Mr. Walters, it is perfectly all right to say

so. A. I might say that these were received by our staff in Bartlesville on November 6, 1950, and they are the latest data that we have up until the present time.

Q. On the plant lay-outs? A. On the plant lay-outs.

Q. And the graphs which were the drawings showing the plant lay-out of the Sherman and Hansford plants, Sneed plant, and the Dumas plant, which have been supplanted this morning by later drawings, as you had inserted them in the general exhibit and which have been removed, had been prepared in the same manner and from like information as that which you have described with respect to the other exhibits which I have identified? A. That is correct.

MR. McALLISTER: Mr. Examiner, I offer in evidence Exhibits 45A, 45B and 45D on the basis of the stipulation which I have with Mr. Sparks, as stated on the record, and with respect to the other exhibits, Exhibits 45C, 45E, 45F

[1001]

45G and 45H, I offer those in evidence as supported by the testimony of Mr. Walters.

PRESIDING EXAMINER: Is there any objection?

MR. SPARKS: No objection.

PRESIDING EXAMINER: Exhibit No. 45, consisting of sub-exhibits 45A to 45H, inclusive, are received in evidence.

(THE DOCUMENTS ABOVE REFERRED TO WERE RECEIVED IN EVIDENCE AS EXHIBITS 45 to 45H, inclusive.)

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Cross-Examination by Mr. Sparks

Q. Mr. Walters, on the sketches that were furnished to you, so that the record will be clear, it was not represented to you that all of the mechanical equipment located on the plant was shown in the sketches, was it? A. That is correct; just the principal equipment and a sketch showing the general flow of gas through the plants.

* * *

[1002]

A. W. PARIS

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. McAllister

Q. What is your full name, Mr. Paris? A. A. W. Paris.

Q. I believe you are employed by Phillips Petroleum

[1003]

Company? A. Yes, sir.

Q. And have been for a number of years? A. Yes, sir.

Q. When did you first enter the employment of Phillips Petroleum Company? A. November 10, 1923.

Q. And you have been employed continuously by them since that time, have you? A. Yes, sir.

Q. Wili you state briefly for the record what your education and experience has been, please? A. Education, high school; experience, 35 years in the industry.

Q. Will you just briefly outline what different positions you have had with Phillips, where you began and the important changes in your employment up to the time you entered your present duties? A. My first job with Phillips was as a stillman. My next job, I believe, was a maintenance foreman in field maintenance. I believe my next job was a plant superintendent's job, and the next district superintendent.

Q. District superintendent of— A. (Interrupting.) Operations and maintenance of gasoline plants and gathering systems.

* * *

[1004]

Q. I believe you have supervision over the plants that we have been naming this morning with respect to certain drawings that have been marked for identification as the Sherman and Hansford plants, the Sneed plant, the Gray plant, the Dumas plant, all of those are under your supervision? A. That is correct.

Q. Do you have supervision over the Eunice, Fullerton, Goldsmith and Crane plants? A. No, sir.

* * *

[1018]

Q. With respect to the lines you have described as the lines which bring gas into the Sherman plant, will you state for the record, Mr. Paris, just where the gas from each of those five lines, the four 24-inch lines and the one 16-inch line, is metered into the plant. I say "into the plant." Maybe

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it is inside of the plant. A. Yes, sir.

I think if you will notice, Mr. McAllister, there are two vessels there indicated as sweet gas scrubbers and sour gas scrubbers.

Q. That is right. A. Right on the outlet of those scrubbers there are meters located, and that is the point where the gas into Sherman plant is measured.

Q. Does that say right above those on the outlet side of those scrubbers, meters 4, and then meters 3? Is that the number of meters? A. That is the number of meters, yes, sir.

Q. So that there is a bank of meters there, I suppose, connected to a header; is that right? A. That is right, yes, sir.

Q. And by this drawing that we have here, does that mean that the only gas going through these sour gas scrubbers is the gas coming off of line O? A. No, sir.

Q. I notice on the 24-inch line, named mixed, you have two by-passes; one is the 24-inch — that is line N, 24-inch mixed — there are two by-passes leading off of that line; one is a 24-inch by-pass and the other is a 12-inch by-pass. There are some letters in a little square there marked "meter" in these 12-inch by-passes.

[illegible]

Q. What would be the purpose of the 12-inch by-pass as shown on this drawing? A. That is a by-pass through which we control the amount of gas out of the mixed line or the in line into the sweet stream.

1020

Q. Well, you have to synchronize, so to speak, the operation of the 12-inch by-pass and the 24-inch by-pass to handle all of the gas coming through the 24-inch line, which is Line N? A. That is right. You might wonder why a by-pass when there is a valve indicated going right into the sweet header off of Line N, but that is a 24-inch valve and it is very difficult to control the flow through a valve that large, so we put the small by-pass in there with a meter in it. We are limited to the amount of gas we can take from the mixed or in line into the sweet system for the reason that it would make that stream sour also, so we can't put in only so much of it and we put in a small by-pass with a meter on it which will give us an indication of the amount of gas we are putting in there and enable us to control the plant, and the balance of it goes around to the 24-inch by-pass through the sour stream.

* * *

[1034]

Q. It is a continuous flow of gas from the lines leading into the plant through the plant and out through the residue lines to a connection with Michigan-Wisconsin Pipe Line Company? A. That is true with respect to the gas. Some of these vapors are compressed. The vapors we have been talking about go back in there.

* * *

[1045]

Q. Then it is true, is it not, that this plant as operated and its operations as to volume was gauged each day by the volume of gas to be delivered, or which can be delivered

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to Michigan-Wisconsin? A. If I understand your question you mean the volume of gas that we process through the plant is gauged by the volumes received from us by Michigan-Wisconsin; is that what you mean?

Q. What they can take or what they want or what you can deliver to them.

[1046]

A. Yes, I think that is right.

Q. I do not say it is their whim at all, but whatever they can take or whatever they require fixes the volume that you can process or do process through the plant? A. That is right.

Q. In other words, it is not the reverse of that, that you process what you care or determine yourself, and then you give it to them and they have to take what you give them, it is just the reverse of that? A. That is right. That, of course, within the limits of the contract.

* * *

[1048]

Q. At all times from the point where gas enters the plant to the point where gas goes out of the plant there is a continuous flow when the plant is in operation? A. That is right.

Q. And except when the lines leading into the plant are valved off for some reason there is a continuous flow through all those lines leading into the plant and through

[1049]

the plant and on out, and, of course, necessarily there is a flow all the way from the well at the pressure which is

generated out of the well? A. There is no boosting between the well and that point.

Q. That is right, and there is no boosting on the Sherman system anywhere? A. No, sir.

Q. I think the question and answer is complete, but that is a continuous flow all the way through the system, through the plant and over to connect with the Michigan-Wisconsin? A. I wouldn't say it was a continuous flow through all of the lines, but there is a continuous flow. There may be one line shut down for repairs or something, but the lines that are in service and open, there is a continuous flow except you may have emergencies or something that stops the flow.

* * *

[1082]

Q. In this Dumas plant do you have streams of sweet and sour gas? I am referring now to Exhibit 45-D, which is

[1083]

the Dumas plant. Are there streams of sweet and sour gas going through that plant for processing? A. Streams of sour gas only.

Q. Streams of sour gas only? A. Yes, sir. I mean by that it is sour at the point that the plant processes it.

Q. Sour as it flows into the plant? A. That is right.

Q. And all of the gas into that plant goes through that 24-inch line at the upper right-hand corner of Exhibit 45-D, where it is shown to connect with what is termed "Inlet scrubbers (3)"; is that right? A. That is right.

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Q. And the first meter on that flow of gas is beyond the inlet scrubbers — and when I say "beyond" I mean as the lines are drawn — where there are six meters; is that right? A. That is right.

Q. And that is a bank of meters? A. Yes, sir.

Q. Are those meters so designed that they show the pressure of the gas that passes that point? A. Yes, sir.

Q. Then that flow of gas goes on to what is termed as a "gas treater"; is that right? A. That is right.

[1084]

Q. And that is a desulphurizer? A. That is right.

Q. You show four meters on the discharge of the gas treater. Why is that gas metered there again? A. Those are control meters for balancing the flow through the treaters.

Q. Through the gas treaters? A. Yes, sir.

Q. There is a meter on each run, so to speak. A. Each contactor has its own meter, so you can tell how much gas is passing through each one of them.

Q. So that not one will be overloaded to the point where it will not perform the process for which it is designed? A. That is correct.

Q. At what point in the Dumas plant operation do you measure the sulphur content remaining in the residue gas stream? A. We measure it — we are testing constantly downstream from the treater. That is done every hour or so during the day.

Q. You take a sample of the gas that comes out of these treaters and test it for sulphur content? A. That is not the quantity of sulphur, that is merely an indication whether it is sweet or sour.

* * *

[1094]

Q. As I understand the diagram, which is Exhibit 45-D, the one that you have before you showing, you might say, the flow diagram of the Dumas plant, the gas coming in through the treater which we talked about a moment ago, then goes through the plant absorbers — you have a bank of six of them — and then individual meters on each one of the units, and the gas goes on out of the plant absorbers out through a 24-inch line to the El Paso Natural Gas Company shown down relatively to the bottom left-hand corner of the drawing; is that right? A. That is right.

Q. Where you show a meter just to the left of the line leading out of the plant absorbers from the plant fractionator, that is the same situation we had with respect to the Sherman plant where the gas is from the gasoline extracting facilities where some of the lighter hydrocarbons flow off of that and come back into the stream of residue gas; isn't that right? A. That is the point where the overhead vapors could come back into the stream.

Q. Could come back in? A. Yes, sir.

Q. But is that one of the points at which you control the volume flowing in there in order to maintain your Btu content in the residue gas going to El Paso, or where you add Btus, if that is desired?

[1095]

A. That is where we would dispose of the light hydrocarbons off of the gasoline which we did not wish to retain in the gasoline, if we had any. At the present time we

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are not operating the fractionators, therefore there are no vapors entering at that point.

* * *

[1103]

Q. You mentioned the words "gathering system" and so on. Have you ever made a study to determine whether all of the lines that are connected to a system or to the system that serves the Dumas plant are actually gathering lines or whether some of those lines might not better be classified

[1104]

as field lines or whether some of them ought to be classified as transmission lines? Have you ever made such a study to determine the proper classification of those lines? A. Well, I wouldn't know on what basis to start such a study in the first place, but throughout my 35 years in the industry it has never been known as anything else, except a gathering system.

Q. I mean that is the way you generally refer to it? A. Always have, yes, sir.

Q. But that system has changed very materially over those 35 years? A. The purpose of it hasn't.

Q. I didn't say that. The lines, the size of the lines, the connections, the plants, very, very materially have changed over that period of time? A. Are you referring to these particular plants?

Q. I am referring to these particular plants. A. Well, yes, because they weren't there at that time.

Q. They weren't there at that time at all. A. No, sir.

Q. And all these gathering systems are designed to provide a backbone line or a series of backbone lines leading into a plant and from those backbone lines or main lines you have smaller lines or lateral lines leading off

[1105]

from them, that is general design, is it not? A. Oh, yes, we have just a fan-shaped system or it might be most any kind of shape.

Q. But it all starts out with a stem line, of large diameter, which provides the backbone of whatever you are going to do in one area of a field and then you take your leads off of that to serve the wells that are to be tied into this system, isn't that right? A. Yes, I think that is right. Certainly, because your greater volume is near your processing point.

Q. Sure, you have to do it that way. A. And the lines would naturally be larger at that point.

* * *

[1108]

Q. I want to ask you a few questions — I do not think I will be able to finish all these questions this afternoon — about the Sneed plant. That is Exhibit 45-B. Are you familiar with the operation of the Sneed plant?

[1109]

A. Generally, yes, sir.

Q. It has been in operation for quite some time. A. Yes.

Q. Were you not superintendent of that plant at one time? A. No, sir.

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Q. You were not? A. No.

Q. This plant is operated in a manner that differs somewhat from the other plants that we have been discussing this morning, the Dumas and the Sherman plant, is it not? I do not mean the equipment or physically, in that the gas is compressed by Panhandle before it passes through the absorbers of Phillips Petroleum Company. A. That is right.

Q. Just where do the lines indicate the flow of gas into the plant? Is that in the upper right-hand corner just to the right of what is termed the scrubbers, 24-inch field gas to plant? A. Is that Panhandle gas you are speaking of?

Q. No, that is Phillips gas. A. Yes, Phillips gas enters at that point.

Q. And that gas of Phillips goes through these scrubbers, it is metered, and then goes to a compressor. Those are all the facilities of Phillips; is that right?

[1110]

A. That is true.

Q. Then it goes through a gas treater, and at that point the gas treater, all of the gas going through that is Phillips gas; is that right? A. I do not know where the title changes hands on that gas, Mr. McAllister, but I would say at that point it is Phillips gas there.

Q. It is Phillips gas at that point. I was not thinking so much of ownership as gas produced and brought into the plant through lines wholly owned by Phillips, and that is true at that point, all the gas at that point runs into the plant through pipe lines wholly owned by Phillips; isn't

that right? A. I don't know about the ownership. We operate the lines. Whether they are wholly owned or not, I do not know.

Q. I mean you operate them? A. Yes, sir.

Q. That is perfectly satisfactory. A. I consider them Phillips lines.

Q. That is the same way I did, and I was not stressing ownership or operation or what not. Maybe they do not own them, I do not know. But out of the gas treaters you go through two meters there. Would all that gas come down — there is a lead-off just beyond the meters marked as two, it goes through a six-inch line that says "treated gas to reabsorber."

[1111]

Is that ordinarily valved off there so that the gas will flow through the meters — well, I am lost. How does that gas flow? A. That is just a take-off from that line, that six-inch line.

Q. A take-off? A. Yes, sir, it goes around through the reabsorber, through the reabsorber, and into the fuel system. That is a relatively small volume of gas.

Q. And that is not the main flow out of the gas treater? A. No, sir, the main flow continues on.

Q. Continues on to that elbow and then down through three additional meters; is that right? A. That is right.

Q. And comes on down to a point where it joins a stream coming in through Panhandle Eastern's line and goes through compressors there, and those compressors are Panhandle's compressors? A. That is right.

Q. Then after being compressed, the total volume, that

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is, the Phillips gas, and the gas coming in over the Panhandle lines goes through the compressors out of the compressors through a 24-inch line and up through the absorbers — it shows a bank of six with a meter on each one — and out of that back down through a line, a 24-inch line, which shows

[1112]

the flow of that total stream to a dehydrator; is that right? A. That is right.

Q. Is that the normal flow of the volume of gas through the joint facilities of Phillips and Panhandle? A. That is right.

Q. I don't mean joint ownership, each owns separate particular facilities that we have been talking about. A. That is right.

* * *

[1116]

Q. Are the liquid hydrocarbons obtained through the processing of natural gas in this plant piped to the fractionating plant of Phillips Petroleum Company? A. The Borger fractionating plant?

Q. Yes. A. It is.

Q. And is your answer here the same as it was with respect to the Sherman plant, that you know of no sale of liquid hydrocarbons as it comes from this plant, but that all of it goes through that line to the fractionating plant at Borger? A. I don't know of any sale. However, I would not make a positive statement on that because I am not familiar with this agreement between Phillips and Panhandle.

Q. Oh, I see. A. The liquid part of it, but outside of that I would say there is not any.

Q. Well, I was not thinking of that when I asked the question. There might be some difference here, but so far as you know all of those liquid hydrocarbons flow into the Borger fractionator? A. I know they do, yes, sir.

* * *

[1119]

MR. TORKELSON: Mr. Examiner, I have had a conversation with counsel for Phillips Petroleum, and also with counsel for the Federal Power Commission regarding certain information that I received from Madison Gas and Electric Company, Madison, Wisconsin, as to the State of Wisconsin being a consumer of natural gas purchased from Michigan - Wisconsin Pipe Line Company, and we have agreed that I may read into the record two letters that I have received from the secretary and treasurer of that company, and that when read into the record it will be stipulated that the secretary and treasurer of the company, if called as a witness in this proceeding, would testify to the same effect as his letter to me.

PRESIDING EXAMINER: That is agreeable with the Examiner.

MR. TORKELSON: I will now proceed to read the letters.

The letter is on the letterhead of Madison Gas and Electric Company, 100 North Fairchild Street, Madison 1, Wisconsin:

"April 10, 1951, Public Service Commission of Wisconsin, State Office Building, Madison 2, Wisconsin.

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"Attention Mr. William E. Torkelson, Chief Counsel.

"Gentlemen:

"This will confirm information given to your office this morning. The sales of natural gas to the State of Wisconsin, Executive Residence, at 101

[1120]

Cambridge Road, Madison 4, Wisconsin, by Madison Gas and Electric Company, during the period from December 1949 when natural gas was introduced through March 31, 1951, were 1472.8 Mcf for which bills amounting to $1558.10 were rendered. The aforesaid natural gas was purchased by Madison Gas and Electric Company from Michigan-Wisconsin Pipe Line Company.

"Very truly yours,

"R. F. Stumpf,
"Secretary-Treasurer."

I also have another letter also dated April 10, 1951, and with the same address, to my attention, on the letterhead of Madison Gas and Electric Company as follows:

"This will confirm information given to Mr. O. P. Deuel of your office yesterday afternoon. The sales of natural gas by Madison Gas and Electric Company to the State of Wisconsin (University of Wisconsin account, including the University Executive Mansion) during the period from December 1949 when natural

gas was introduced through March 31, 1951, were 12,482.7 Mcf, for which bills amounting to $13,479.84 were rendered. The aforesaid gas is purchased by Madison Gas and Electric Company from Michigan-Wisconsin Pipe Line Company.

"Very truly yours,

[1121]

"R. F. Stumpf,
"Secretary-Treasurer."

My understanding is, your Honor, that counsel have agreed that R. F. Stumpf, if called as a witness, would testify to the effect as stated in his letters.

MR. PURDUE: That is correct, Mr. Examiner.

PRESIDING EXAMINER: Is that your understanding, Mr. Sparks?

MR. SPARKS: That is correct.

MR. TORKELSON: We ask that the material read be received in the record.

PRESIDING EXAMINER: It will be received in evidence.

* * *

A. W. PARIS

resumed the stand as a witness, and having been previously duly sworn, was examined and testified further as follows:

* * *

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Direct Examination (Resumed) by Mr. Perdue

* * *

[1122]

Q. You were, on Friday, referring to Exhibit 45-B and had been discussing the flow of gas through the Sneed plant, as depicted on that exhibit, and I believe we had just gotten the gas through the compressors of Panhandle Eastern Pipe Line Company in the lower center of the exhibit. I note that in discussing the flow of gas through the Panhandle compressors you mentioned the fact that the gas coming down the line from the Phillips gas treater when it reached a point at which you were not sure of, title passed to Panhandle Eastern Pipe Line Company.

The gas then, of course, is mixed and makes a right angle there, the line down from the Phillips plant is mixed with Panhandle Eastern raw gas flowing in from their own wells and gas they purchased from Phillips 27 Philrock wells in Moore County; is that not correct? A. The gas that we deliver through our gas treater to Panhandle Eastern is mixed with Panhandle Eastern's gas at the suction of their compressor station. I do not know what disposition they make of the gas from the 27 wells.

Q. Then the gas leaves Panhandle's compressors and

[1123]

returns once more to the Phillips' Sneed plant. Because you called attention to the fact that the title passed on its way from the treater to the Panhandle compressors, I would like to ask you if you know if title passes from

Panhandle back to Phillips as the gas moves from the compressors to Phillips absorbers. A. I understand it does not.

Q. It does not? A. That is right.

Q. The gas then moves into a bank of six absorbers, I believe, after it has been compressed by Panhandle. Could you tell me at what pressure Panhandle compresses that gas. A. Approximately 500 pounds.

Q. It then moves through the Phillips' absorbers at 500 pounds. Those meters on top of the absorbers then must be control meters? A. That is right.

[1124]

Q. The gas, then, of course, leaves the absorbers and passes as depicted on Exhibit 45B once more down parallel with the line where it went to the compressors through the dehydrater, as shown on the bottom left center of 45B and into the line of Panhandle Eastern, is that correct? A. That is correct.

Q. Does that dehydrater down there belong to Panhandle Eastern? A. It does not belong to Phillips, I can answer it that way.

Q. Could you tell me the approximate pressure that the gas moves into the Sneed plant at? A. Which gas are referring to?

Q. That is on the line in the right side of 45B, 24-inch field line gas to plant, just before it enters the scrubbers, to the scrubbers. A. That is the pressure entering the compressors?

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Q. Yes, sir. A. I' m not sure about that, but I believe it is about 160 pounds.

* * *

[1131]

Q. As we see on Exhibit 45-C, the gas leaves the intake compressor and moves to the right, as shown on 45-C, to a point where it passes into the absorbers and there, of course, is commingled with gas brought from Wheeler County; isn't that correct, sir?

[1132]

A. That is correct.

Q. Then the gas moves from the absorber to the left and passes direct to the left and then moves to the southwest and across the south fence of the Gray plant and moves out and over to the Independent Natural Gas Pipe Line, does it not, sir? A. That is correct.

Q. It passes through — of course there is a gas purchase meter, and that is where the gas is metered, and cost is determined to natural gas pipe line companies, is it not — or the Independent Natural Gas Pipe Line Company? A. Yes, that is where the gas is metered to Independent.

Q. Although not shown on this Exhibit 45-C almost as soon as it passes through that meter it goes through Independent Natural Gas's scrubbers, does it not, sir? A. I am not certain about that, but it appears they have some scrubbers there. I don't know about that.

Q. Then, of course, it flows into Independent Natural Gas compressor station; is that right? A. I believe that is right.

Q. Do you know what pressure it is boosted to at that pressure station, sir? A. No, sir, I do not.

Q. The 20-inch line which is marked Ing. 20 inch, and is a broken line from the absorbers to the gas purchase meter,

[1133]

do you know, sir, if that line belongs to Phillips Petroleum Company? A. I understand it does not. From a point marked "Back pressure regulators" on to the Independent compressor station is not owned by Phillips.

Q. From the regulator directly underneath the right end of the intake compressor to the gas purchase meter marked "Ing. Company Gas Purchase Meter," that line does not belong to Phillips. Do you know who does own that line, sir? A. I have always understood that Independent owned it.

Q. Could you tell me the approximate distance of that line? Let me ask it this way— A. I think it would be approximately a quarter of a mile.

Q. Could you tell me the approximate distance from the back pressure regulator to the Phillips Petroleum Company line separating the Gray plant camp and the Independent Natural Gas camp? A. Approximately 200 yards, I would say.

Q. Now the Independent Natural Gas line which carries the gas to the back pressure regulator, could you tell me the function of the back pressure regulator, sir? A. It controls the pressure on the plant.

Q. On what plant? A. On the Gray plant.

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[1134]

Q. You mean it does not allow pressure to come from, say, the Independent Natural Gas compressor station and does not allow the gas to back into Gray plant; is that right? A. No, sir, it is necessary to maintain a certain pressure on the plant to operate it, and regardless of what Independent might do if they were to stop those compressors, or something of the sort, that would tend to reduce the pressure in that line between Gray and the Independent compressor station and the regulators would not permit the pressure on the plant itself to be reduced.

Q. In other words, from the back pressure regulator to the Independent Natural Gas compressor station it might be a negative pressure in that line; is that what you mean? A. I can see that it could be.

* * *

[1146]

Q. Now, on those lines coming into the Hansford plant, Lines D, E and F, they come down and make a right angle on Exhibit 45A and then seem to come to a header. Is there a header there, sir? A. That is right.

[1147]

Q. Are there any meters at that point? A. No meters.

Q. Are there any valves on Lines D, E and F before they reach that header? A. I can't answer that, sir.

Q. Then off that header we have a 24-inch wet gas line to Hansford plant, another wet-dry gas line. Now, that line passes down and into the Hansford plant absorbers,

of which there are shown four. Is that a correct number, sir? A. That is correct.

Q. And the gas moving from the south into the plant, the southeast and west, in other words, from Line A, B and C, which is, in part, Texas gas, seems to join together just outside the plant fence to the south of the Hansford plant, is that right, sir? A. That is correct.

Q. They come together in a header there? A. That is correct.

Q. Are there any valves in those lines there, sir, before they are joined together? A. I am not sure about that, sir.

Q. All right, sir. Could you tell me the size of the lines, sir—well, first we see Line B joins Line C and then Line A joins what we might call B-C. We don't

[1148]

have any letter or designation on that line at all. Could you tell me what size line that is that A, B and C join together in and run across— A. When you are talking about A, B and C, now, you are losing me.

Q. There is A, B and C joined together. First B runs into C, then A runs into C. Could you tell me the size of that line as it crosses the plant? A. I believe it is a 24-inch line. I'm not positive, but I believe it is.

Q. And that line also passes directly into the Hansford plant absorbers, of which you have said there were four, is that not correct, sir? A. That is correct.

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[1157]

Cross Examination by Mr. Sparks

Q. Mr. Paris, turn to Exhibit 45-A, associated with the Sherman-Hansford plants. Now, the lines that are shown on that exhibit, Mr. Paris, the red lines are lines carrying raw gas; is that correct? A. That is right.

Q. And the green lines are lines carrying residue gas. A. That is correct.

[1158]

Q. Then there are some brown lines on the exhibit. Do you find those? A. Yes, sir.

Q. Mr. McAllister on Friday went over in detail with you the manner in which the gas, the raw gas, comes into the plant through the various lines and through the tie-overs from the sweet and mixed lines and certain of the gas is taken as sweet gas, which includes some of the mixed sweet and sour gas, does it not, through a bank of three scrubbers, sweet gas scrubbers, to the left of the flow sheet? Do you find that? A. That is correct.

Q. And the other gas which includes the gas from sour lines and also part of that from the mixed or center line, is taken through the sour gas scrubbers, shown as such on the left side of the chart. Is that correct? A. That is correct.

Q. And from the sour gas scrubbers raw gas goes through the treater marked as "Gas treater," with a block on the exhibit. At the gas treater the hydrogen sulphide is removed from the gas; is that right? A. That is correct.

Q. Then gas passes from the sour gas treater and passes through a bank of five meters and comes to a point or into a line shown on the exhibit which is joined by the sweet gas line from the sweet gas scrubbers. Do you find that point on

[1159]

the chart? A. That is correct.

Q. Does the treated gas and the gas from the sweet gas scrubbers come to a common header at that point? A. It does.

Q. And is it commingled at that point? A. It is.

Q. From that common header does the gas enter the absorbers at Sherman plant? A. It does.

Q. I notice that there are two banks, shown to be two separate sets of absorbers here, one shown to have five in it and the other five. Do all those absorbers actually take off of the same common header? A. They do.

Q. From the absorbers gas passes through a meter—the residue gas passes through a meter—which is at the discharge of each absorber? A. That is correct.

Q. Mr. Paris, what is the operation which takes place in the absorbers? A. The absorbers is the point where the absorption oil is contacted with the gas for the purpose of removing the gasoline hydrocarbons from the gas.

Q. How is that operation conducted?

[1160]

A. The gas, as indicated on the diagram, enters the lower part of the absorber and flows upward and out at the top.

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The absorption oil is piped into the absorber near the top and flows down, or counter-flows to the gas stream. In the absorber there are a number of what we call bubble trays which are there for the purpose of contacting the gas with the oil. The oil passes down over the bubble trays until it reaches the bottom and is what is referred to as saturated oil at that point. It has then absorbed the hydrocarbons from the gas that we take out of it.

Q. Is the oil that comes in at the top of the absorbers, and before it is contacted with the gas, normally called lean oil? A. That is correct.

Q. And after the oil has been in contact with the gas in the absorbers and comes out of the bottom of the absorbers, it is referred to as rich oil? A. That is correct.

Q. Meaning the oil which contains whatever hydrocarbons have been absorbed from the raw gas? A. That is correct.

Q. Does the absorption oil absorb only the heavy hydrocarbons which are desired for liquids, or does it also absorb some of the lighter hydrocarbons, such as methane and ethane? A. The absorption system, as we use it, is not entirely

[1161]

selective. I mean by that that we are not able to select and absorb only those hydrocarbons that we desire to keep in liquid gasoline, and some ethane is absorbed during the process.

Q. And some of all of the hydrocarbons contained in the gas which are heavier than ethane. A. That is correct.

[1162]

Q. Does the absorption process absorb into its oil all of the heavier hydrocarbons which you desire to retain as liquids? A. Of course, we attempt to design our plants where we can absorb as much of that material as possible, but I believe the economics of the situation controls that. I believe some of the heavier hydrocarbons are left in the gas after the absorption.

Q. In other words, is the absorption process as it is used by Phillips in its gasoline plants more and more selective of the heavier hydrocarbons in the gas as you move from the lighter end of the hydrocarbon range to the heavier end? A. That is correct.

Q. In other words, it absorbs a higher percentage of the pentanes, for example, than it does the normal butanes? A. That is right.

Q. And, of course, of the hexanes and pentanes? A. That is correct.

Q. These flow sheets do not depict the movement of the rich oil after it leaves the absorbers, do they? A. They do not.

Q. Not only this one but none of them that have been offered in evidence and from which you have testified? A. That is correct.

[1163]

Q. After the rich oil leaves the absorbers, I would like for you to trace it through the plant, describing the source of vapors resulting from the rich oil at the various points of equipment in the plant, and also the disposition of those

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vapors with regard to the Sherman plant. A. The rich oil leaves the absorbers and it flows to what we refer to as the flash tank. That is indicated on this diagram to the left of the small group of five circles just below the block indicating the gas desulphurizers, gas treater. At that point the pressure on the oil is reduced from an absorber pressure to approximately 100 pounds.

Q. And the absorber pressures here, you stated, were approximately what? A. Two hundred fifty, something in that order.

Q. And that reduction in pressure results in the creation of vapors? A. At that point, by the reduction of the pressure, the oil gives off some of the vapor.

Q. All right, now, where do those vapors go? A. Those vapors are returned to the inlet to the absorbers.

Q. Setting up a cycle, reflux cycle, is that right? A. No, I would not refer to it as reflux. The nature of the vapors off of the tank referred to as a flash tank is similar in nature to the gas from the field entering the

[1164]

absorber.

Q. Do you mean it is hydrocarbon composition and percentages of the various hydrocarbons? A. It is probably a little richer than the heavier hydrocarbons than the incoming gas from the field, but there isn't a sufficient amount of it there that we can recover it through compressing so we put it back through the absorber. That gas—I don't know how the chemists would refer to it, but it is a gas that is in solution with the oil or maybe some mechanical

entrainment there that carries it through, but it is what we would refer to as rather lean vapor. Therefore, it is put directly back to the inlet of the absorbers.

Q. Where does the remaining rich oil go from the flash tank? A. From the flash tank the oil then passes through a bank of heat exchangers.

Q. What are they used for, Mr. Paris? A. Of course, a heat exchanger in the distillation process, we are attempting to heat the rich oil and cool the lean oil that has already been through the distillation process and had the hydrocarbon vapors removed, so a heat exchanger is a shell and tube affair as we use it, where the rich oil flows through tubes, it is a cold oil at that point, and the lean oil coming back from the still,

[1165]

returning from the still, is hot, so we desire to heat the rich oil and cool the lean oil, so we pass the two oils together and the hot oil gives up its heat to the cold oil and we accomplish a heat transfer in the heat exchangers in that manner.

Q. Where does it go from the heat exchangers? A. From the first bank of the heat exchangers it goes into a second vessel indicated there, labeled primary vent tank.

Q. What is the purpose of that tank? A. In passing through the first bank of heat exchangers, the rich oil has picked up some heat and due to the increased temperature the oil gives off vapors, so to unload the heat exchange system the rest of the way through we vent it in a primary vent tank, remove the vapors that have been released, due to the increased temperature of the oil at that point.

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Q. Those vapors aren't vented in the air, are they? A. No, sir.

Q. They are metered out of the primary vent tank. Is that an operating meter? A. Just an operating meter is all, yes, sir.

Q. Where do the vapors from the primary vent tank go initially? A. They go to the tank indicated on the right of the

[1166]

group and labeled high stage accumulator.

Q. Let's leave them there for the moment and take up our rich oil again, and after it leaves the primary vent tank, where does the rich oil go? A. It flows through a secondary bank of heat exchangers. From the second bank of heat exchangers, into a secondary vent tank. It is vented again at that point for the same reason it was vented after passing through the first bank of heat exchangers.

Q. Now, the vapors that come from the primary vent tank and secondary vent tank, are they substantially richer in hydrocarbon content than those from the flash tank? A. Yes, sir. Each stage of venting is richer.

Q. In other words, the secondary vent tank, vapors from it, are richer than those from the primary vent tank? A. That is correct.

Q. And the vapors from the secondary vent tank pass through the make tank, is that correct? A. That is correct.

Q. Let's take up again the rich oil. Where does it move from the secondary vent tank? A. It moves from the secondary vent tank into a circle you see to the right of that and slightly below labeled Sherman plant petro-chem furnaces.

Q. What occurs in that furnace?

[1167]

A. At that point the furnaces raise the temperature up to the maximum needed for complete distillation or removal of the hydrocarbon materials from the rich oil.

Q. After the oil has been heated so as to discharge the vapors, the balance of the vapors, absorbed from the gas at the absorbers, are the two products still together as they come out of the petro-chem furnace? A. They are.

Q. Where do they move from that point? A. They move from the petro-chem furnace to what we refer to as the still.

Q. That is speaking of equipment that isn't shown on this chart, is that not right? A. That is correct.

Q. And one other question here, the movement we have been talking about of the rich gas and of the vapors is through pipe lines, except when they are in the vessels themselves, is that right? A. That is correct.

Q. What occurs in the still? A. The still is a vessel similar to an absorber, except smaller, and it has these bubble trays in it that we refer to as being in the absorber. The oil enters the top of the still or near the top.

Q. The oil and the gas vapors?

[1168]

A. The oil and the gas vapors, and flows downward through the still. Of course, at that point the vapors are being released. As the oil comes down to the lower part of the still, steam is injected at that point, just open steam, into

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the still. It serves the purpose of, as probably I can best describe it, to just kind of agitate the oil and cause the gasoline hydrocarbon vapors to release themselves from the oil.

[1169]

Q. At the bottom of the still we have the oil stripped of the gasoline vapors; is that right? A. That is correct.

Q. And that assumes the characteristic that is known as lean oil at that point; is that right? A. That is correct.

Q. And that lean oil is recirculated back to the absorbers to start the process all over again? A. That is correct.

Q. The vapors which have been stripped from the rich oil in the still, they come out over the top of the still? A. That is correct.

Q. And where do they go? A. They go through what we refer to as a dephlegmator. At that point any oil that may be in the vapors, or carried over with the vapors, is removed from the vapor and returned to the oil stream.

Q. In other words, the dephlegmator is for the purpose of knocking out any particles of oil which may flow over the top of the still so that they will not have absorption oil mixed in with them? A. That is correct.

Q. And the vapors then pass from the dephlegmator to where? A. To a set of cooling coils located up in the cooling

[1170]

towers indicated in the upper part of the draft. These coils are located at the tower with water spraying over

them. It cools the hot vapors and condenses the liquids, or the heavier portions of the liquids in that stream. Then the uncondensed vapors would turn to the group of five vessels, the fourth one from the left labeled "Make tank."

Q. In other words, the portion of the vapors which have been liquefied in the cooling towers and the remaining hydrocarbons which were still in the vapor stage are taken from the same line into the make tank where the liquids are accumulated in the bottom of the tank and the vapors are taken off over the top of the tank; is that correct? A. That is correct.

Q. Let us take the vapors from the top of the make tank, and, incidentally, the vapors from the secondary vent tank are also discharged into the make tank. A. That is correct.

Q. And whatever remains is a vapor. The make tank, then—and is delivered off the top of the make tank and through a control meter? A. Yes, sir.

Q. And into the high stage accumulator. A. That is correct, except it does not go direct into there.

Q. Where does it go, first?

[1171]

A. The vapors from the make tank and the vapors from the primary vent tank are picked up by a compressor that we refer to as a recompressor in the plant. It is compressed up to approximately 200 to 250 pounds; it passes through coiling coils located in this same cooling tower where those vapors are cooled in the same manner as the ones from the make tank. Then the condensate, or the uncondensed

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vapors are returned from that point to the high stage accumulator.

Q. The liquids from the bottom of the make tank are also dumped into the high stage accumulator? A. The liquids from the make tank are pumped into the high stage accumulator.

Q. Along with the liquids and vapor from the cooling towers that have been put through the recompressor? A. That is correct.

Q. Then in the high stage accumulator you have liquid accumulation in the bottom of the tank and still remaining vapors at the top of the tank; is that right? A. That is correct.

Q. Those vapors on the top of the high stage accumulator, what disposition is made of them? A. They are returned to the plant absorber inlet.

Q. And commingled with the raw gas coming in from the field and pass through the absorber? A. That is correct.

[1172]

Q. What disposition is then made of the liquids accumulated in the high stage accumulator. A. They are pumped through the fractionator.

Q. There is no piece of equipment shown on this map as a fractionator, but it is a vessel, is it not, with bubble trays in it? A. That is correct.

Q. And operates on the same principles as the still? A. That is about right, yes, sir.

[1173]

Q. The liquids taken to the fractionator, what occurs in the fractionator, as that process is carried on? A. If there is any ethane or liquid in the high stage accumulator that we do not desire to keep in the liquid gasoline that we transport to the Borger fractionator, it is separated from the main gas stream in the fractionator.

Q. Does the gasoline come in at the top or the bottom of the fractionator as the liquids come from the high stage accumulator? A. It comes in at some point up the column. I could not tell you exactly where.

Q. Is it contacted in these bubble trays with some substance or other? A. Pardon me?

Q. Does it come in contact with anything in the fractionator? A. Yes. We have some of the same material that we are using in the fractionator that is condensed overhead into a liquid and pumped back to the top of the column and serves as a reflux for the column. That is the only contact of any liquid that is made in the fractionator.

Q. Is heat applied in the fractionator? A. It is, in a reboiler section of the fractionator, which may be in the column or off as a separate unit.

Q. The fractionator at the Sherman plant, what hydro-

[1174]

carbons are taken off as a vapor from the liquids which are brought over from the high stage accumulator? A. Ethane is the only one that we do not desire to keep in the liquid gasoline. Possibly at times there is some propane being fractionated off also. That would depend, I

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would say, if we fractioned off propane that would probably take place in the absorption, in the absorbers, for reducing the Btu of the gas below the minimum permitted under the Michigan-Wisconsin contract. That would be the only reason I would know for fractionating propane off of the gasoline for replacement into the gas stream or residue gas stream.

Q. Is the Btu content of the overage from the fractionator greater than that of the residue over the top of the absorbers, assuming that you just fractionated through ethane? A. No, it would be lower, I would say, in that case.

Q. The Btu of the ethane is lower than the Btu of the methane over the absorber? A. No. If we assume that methane was the only thing that was left in the absorber it would be higher.

Q. Do you know which one of them is the higher? A. No, sir, I do not.

Q. There is a line on this exhibit with an arrow pointing to the residue gas line just above the absorbers at Sherman plant which says, "Four-inch Sherman Plant Fractionator Overhead." Do you find that line?

[1175]

A. Yes, sir.

Q. There is also a meter shown there? A. That is right.

Q. Does that line represent the line from the overhead fractionators which deliver into the residue gas the fractionator overheads at Sherman plant? A. It does.

Q. And is that fractionator overhead commingled with

the residue overhead from the absorbers? A. It is.

Q. Prior to delivery of residue gas which is delivered to Michigan-Wisconsin Pipe Line Company? A. That is correct.

Q. Do you know whether or not any Btu analysis has been made of the Btu content of the fractionator overheads at Sherman plant? A. No, sir, I do not.

Q. I am going to ask you to ascertain, if you can, whether that has been done, and if so what Btu is shown in regard to that fractionator overhead. You can do that during the noon hour.

Mr. Paris, your description of the flow of rich oil and the equipment used in obtaining the liquid hydrocarbons which are liquefied and saved as such at the plant, and the flow of the various vapors down through the high stage accumulator,

[1176]

is that equipment generally denominated the distallation equipment of a gasoline plant? A. That is correct.

Q. The fractionator is not ordinarily included within the concept of gas equipment, or is it? A. Well, it could or could not be. I never thought of it in that respect. It seems to me it treats with the gasoline after it has been distilled from the oil, therefore, I would say that it probably would rightfully not be a part of the distillation.

Q. The flow chart of the Hansford plant reflects a similar accumulation and disposition of a plant vapor recovery, does it not? A. That is correct.

Q. And the flow of rich oil and the processes by which the absorbed vapors are stripped from rich oil and liquefied

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and the vapors in the distillation system is the same in the Hansford plant as it is in the Sherman plant? A. That is right.

Q. And the fractionator overheads at the Hansford plant are also delivered into the residue gas stream from the absorbers to make up the gas that is delivered to Panhandle Eastern, is that right? A. That is correct.

Q. Will you turn now to Exhibit 45-B?

[1177]

A. Yes, sir.

Q. To the right of the exhibit is shown the 24-inch line labelled "Field Gas Plant." Do you find that point? A. Yes.

Q. You have already gone through the process of taking that gas through the absorbers and through the gas treater. Just to the left of the gas treater there is a take-off from that line which is marked "Six-Inch treated gas to reabsorber." Do you find that? A. Yes.

Q. That gas is delivered into the reabsorber, is it not? A. That is correct.

Q. With certain of the plant vapors? A. That is correct.

Q. In other words, some of that raw gas is commingled at that point with the vapors from the first flash tank and high stage accumulator and the vapors from the second vent tank, is that right? A. That is correct.

Q. Are those vapors passed through a recompressor before they are commingled with the raw gas from the six-inch line and introduced into the reabsorber? A. They are not.

Q. What is the difference between this reabsorber and the absorbers?

[1178]

A. There is not any difference, except that it is a smaller unit and operates at lower pressure than do the main plant absorbers.

Q. But mechanically it operates in the same manner as any other absorber? A. That is correct.

Q. The residue gas from the reabsorber, is any of it delivered to Panhandle Eastern? A. No, sir, it is not.

Q. The balance of the raw gas, after it passes through the gas treater, is then metered and then delivered to Panhandle Eastern. Do you know at what point that delivery is made? A. It is made to the suction header at the Panhandle Eastern compressor station.

Q. Do you know whether Phillips owns the line to their suction header? A. They do not.

Q. Do you know at what point Phillips' ownership of the line that is marked "20-inch treated gas to Panhandle Eastern" is owned by Phillips? A. Just that portion that is inside the Phillips plant.

Q. You mean inside the fence? A. Inside the Phillips plant fence, yes, sir.

Q. Then the Phillips gas, I believe you stated, is mingled with the Panhandle Eastern raw gas and put through the

[1179]

Panhandle Eastern compressors and delivered back to Phillips. Do you know the point at which Phillips receives that gas from Panhandle Eastern? A. At the fence line, the south fence line of the Phillips plant.

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Q. The south fence line of the Sneed plant? A. Yes, sir.

Q. Then that gas moves on this diagram north and makes a left angle turn to the west. At that point where it makes that turn, is anything added to that gas? A. There is.

Q. And what is added to the gas at that point? A. That is gas from the first vent tank, or vapors from the first vent tank, and the second flash tank.

Q. Those are the vapors that come off the rich gas in the course of the distillation process which you previously described as first vent tank and second flash tank. A. That is correct.

Q. I believe in the distillation system that you were describing at the Sherman plant, I do not believe there was a second flash tank, was there? A. No, there was not.

Q. How does the second flash tank enter into the distillation system at Sneed? A. The Sneed plant operates the absorbers at 500 pounds

[1180]

pressure and bringing from the 500 pounds down to the presure to carry on the heat exchanges in the distillation system, and instead of doing all the flashing at one point we do it in two different stages. It is a two-stage flashing, is what it amounts to.

Q. The second flash tank vapors are richer than those in the first flash tank? A. That is correct, yes, sir.

Q. How about the first vent tank vapors, are they still richer? A. It is richer.

Q. Those vapors are then introduced into the raw gas stream upstream from the absorbers, as shown on this flow

sheet? Do you find that point. A. Yes, sir, that is correct.

Q. Does all that gas come into a common header before the bank of six absorbers? A. It does.

Q. And is commingled at that point? A. It is.

Q. And after being run through the absorbers the remainder of the gas which is not absorbed into the absorption oil passes off the top of the absorbers; is that right? A. That is correct.

Q. Through a bank of six meters.

[1181]

A. That is correct.

Q. Then the flow chart shows there is another stream introduced into the residue gas from the absorbers which is labeled "Plant fractionator overhead." Is that an overhead from the fractionator which is similar to the one you described at the Sherman plant? A. Yes, sir.

Q. Do you know whether those fratcionator overheads contain anything except ethane? A. I would say in this case they do not.

Q. You would say they do not? A. That is right.

Q. From time to time do you know whether or not they also contain propane? A. Well, it would be possible, but I am not certain.

Q. Is there also collected with the residue gas another stream which is marked on the exhibit as being vaporized liquids. A. That is correct.

Q. What are those vaporized liquids which are introduced into and commingled with the residue from the top of the absorbers? A. That is gasoline after it has passed

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through the plant fractionator, a portion of which — I beg your pardon, it is not gasoline, it is fractionator reflux. It is not a finished gasoline. It is pumped through a vaporizer and added

[1182]

back to the residue stream from the absorbers.

Q. Do you know what the hydrocarbon composition is of the fractionator reflux which is vaporized and introduced into the residue stream? A. Not for certain. It is principally propane and possibly some butane.

[1183]

Q. Do you know whether or not the Btu's of that vaporized liquid is greater than the Btu's of the residue that comes off the top of the absorber? A. It is greater.

Q. Does it serve to decrease the Btu content of the total mixture of residue gas which is redelivered to Panhandle Eastern? A. It does.

Q. At what point does the redelivery of the commingled residue vapors and vaporized liquids to Panhandle Eastern take place. A. In the absorber outlet header.

Q. Is that the point where Phillips redelivers the residue to Panhandle Eastern? Did you follow my question? A. I probably missed the question, sir.

Q. In other words, I asked you the point at which redelivery is made to Panhandle Eastern of this commingled residue from the absorbers, fractionator overhead and vaporized liquids. A. At the Sneed plant fence, located south of the Sneed plant.

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[1191]

Q. If you will turn to Exhibit 45A, I believe you stated that after the sour gas had passed through the gas treater and the sweet gas through the sweet absorber, that all volumes of gas processed in the plant came to a common header, where it was commingled before being processed through the absorbers? A. That is correct.

Q. Is the hydrocarbon composition of the raw gas in that header which is the commingled gas, processed through the plant different from the hydrocarbon composition of the residue gas as it is delivered to Michigan-Wisconsin Pipe Line Company at the meters shown near the northeast or upper left-hand corner of the chart, Exhibit 45? A. The question is is the hydrocarbon content different?

Q. The hydrocarbon content of the raw gas different from the residue gas that is delivered to Michigan-Wisconsin. A. It is.

Q. Now, Mr. Paris, is the hydrocarbon composition of the residue gas as it comes from the top of the absorbers shown on Exhibit 45A and before the overhead vapors from the fractionator are introduced into that residue from the absorbers different from the mixture of the two which is delivered to Michigan-Wisconsin? A. It is.

[1192]

Q. At the Hansford plant, is the hydrocarbon composition of the raw gas in the headers before it is taken in the absorber different from that of the ultimate residue gas which is delivered to Panhandle Eastern at the meters near the east side of the plant? A. It is.

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Q. Is the hydrocarbon composition of the residue gas from the top of the absorbers prior to the introduction into that stream of the overhead vapors from the fractionator at Hansford plant different from the mixture of the two which is delivered to Panhandle Eastern? A. It is.

Q. At the Hansford plant, Mr. Paris, does all of the raw gas from the lines which, I believe you said, were lines A, B, C, D, E and F on Exhibit 13, does all of that gas come into a common header and become commingled before it is processed through the absorbers? A. It does.

Q. Turn to Exhibit 45C. I believe on direct examination this morning you stated that the line, 20-inch line, from the southwest Gray County, was taken directly into the absorbers. I ask you whether or not the gas from that line is not commingled with the gas coming through the 20-inch line from Wheeler County as marked on the exhibit and with all of the gas which comes into the plant through the vacuum

[1193]

lines marked on the exhibit after the vacuum gas passes through the compressors before being processed in the absorbers? A. It does.

Q. Is the hydrocarbon composition of the commingled raw gas at the intake header of the absorber different from the hydrocarbon composition of the residue gas which is ultimately delivered to Independent Natural Gas Company? A. It is.

Q. Is the hydrocarbon composition of the residue gas off of the top of the absorbers at Gray plant prior to introduction into that stream of the plant vapor recovery of

a different hydrocarbon composition from the residue gas which is ultimately delivered to Independent Natural Gas Company? A. It is.

Q. I believe you stated this morning that it was approximately a quarter of a mile from the meters at Sneed plant which meter the gas that Phillips sells to Panhandle Eastern to Panhandle Eastern's compressor station. Do you recall that? A. Yes, sir.

Q. How far is it from those same meters to the plant fence, at which point, I believe you testified, the gas was delivered to Panhandle Eastern's line?

[1194]

A. Oh, I'd estimate 150, 175, yards.

Q. I'm not sure whether you testified to this or not Mr. Paris. Who owns the meters on Exhibit 45D at the point near the bottom of the exhibit where it says "meters (4) El Paso Natural Gas Company"? A. Which exhibit?

Q. That is 45D. A. They are owned by El Paso.

Q. Those are the delivery meters to El Paso, are they not? A. That is correct.

Q. I believe you have stated that Phillips Petroleum Company does not sell any of the gasoline as made at the several plants represented by, well, I should say Dumas, Sneed, Gray, Sherman and Hansford plants, but takes the gasoline as made through a gasoline pipe line to the Borger fractionator where it is further fractionated and processed, is that correct? A. That is correct.

Q. Does Phillips Petroleum Company, however, purchase gasoline as made from other gasoline plant operators in the Panhandle Field? A. Yes, sir.

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Q. Does that gasoline include, in some plants, butanes and propanes?

[1195]

A. It does.

Q. Within the limits fixed by the Btu requirements of the gas sales contract, and the Btu content of the raw gas from the field, does Phillips Petroleum Company have complete freedom in determining the gasoline extraction and liquid hydrocarbon production at the several plants we have been discussing? A. We do.

Q. And within those limits, do the requirements of the pipe line companies, such as Michigan-Wisconsin Pipe Line Company, determine the gasoline and liquid hydrocarbons which will be manufactured at the plants? A. Within those limits, they do not.

Q. And, in fact, does your gasoline extraction vary from time to time in the plants such as the Sherman plant? A. Yes; it varies.

Q. By that I mean the degree of extraction. A. Yes, sir.

Q.Do you have any control over the volume of casing-head gas which is produced from the wells to which you are connected and from which you take casing-head gas? A. None whatever.

Q. Who determines that volume? A. The operator of the wells, the producer.

Q. Is it affected by the oil proration schedules?

[1196]

A. Yes, it is.

Q. Does the casing-head gas produced with the oil and cannot be produced without the oil, or the the oil cannot be produced without it, I guess I should say? A. I don't know of any cases where casing-head gas or oil is produced without producing casing-head gas with it. There are instances where casing-head gas is produced when oil is not produced, but generally always in instances that I know of in a lesser volume than would be the case than if the oil were being produced.

[1197]

PRESIDING EXAMINER: Casinghead gas is produced exclusively from oil wells, is it not?

THE WITNESS: That is right.

PRESIDING EXAMINER: It is not produced from gas wells.

THE WITNESS: That is correct.

BY MR. SPARKS:

Q. What I meant to say is occasionally gas is produced along with the oil. A. That is right. I would say that as a rule, but when they are not producing oil there is some gas produced from casings regardless of whether oil is being produced or not, in some instances. In some places the oil fills up the well bore and sets gas off, but in other cases it does not fill up very much and some gas has to be produced, even though the well is not pumping or flowing, whatever it might be. If it is a pumping well, that would happen; if it is a flowing well, of course, it would not, unless it were flowing—

Q. I believe you stated at the present time aproximately 60 per cent of the residue gas from the Gray plant

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was delivered to Independent Natural Gas Company. Does that percentage and volume of gas delivered to Independent vary? A. It does.

Q. Is it more or less in the summertime than at present? A. The volume is less in the summer than it is at the present and through the winter months.

[1198]

Q. And is the percentage of the total less? A. It is.

Q. In the Sherman gathering system, for example, is there a variation in the pressure, the reservoir pressure, of the various wells? A. There is.

Q. Is there a variation in the pressure at the well in some cases and the working pressure in the line taking gas from the well? A. There is.

Q. How is that handled to maintain that pressure variation? A. I would say the largest part — that is what I intended to say, but I am not sure about that — the wells are prorated, of course, and to prevent the wells from over-producing they are pinched in and not allowed to produce wide open in all instances, and the pressure in the gathering system must be maintained sufficiently low that the lowest pressure wells can produce into the system. That is controlled by pinching back on all of the wells.

Q. And I assume that varies from time to time when various wells are put in and taken out, cut in or out of the gathering system? A. That is correct.

* * *

[1211]

MASON G. WALTERS

was recalled as a witness, after having been first duly sworn, was examined and testified further as follows:

Further Direct Examination by Mr. Purdue

* * *

[1213]

Q. Mr. Walters, did you prepare Exhibits 48 to 51, inclusive? A. I either prepared them or they were prepared under my supervision.

Q. As in the case of Exhibits 12 to 15, inclusive, did you first make drawings or sketches on a larger scale than these exhibits from maps and drawings of Phillips' facilities on a still larger scale which that company supplied? A. I did.

Q. Did you also put in on the drawings which you made certain line designations and sizes from vacuum and residue line maps supplied by Phillips Petroleum Company? A. Yes, sir, I did.

Q. Were the drawings which you made true and correct depictions on a smaller scale of the pipe line facilities shown on Phillips' maps? A. They are.

* * *

[1214]

Q. Then did you check Exhibits 48 to 51, inclusive, against transparencies of Phillips Petroleum Company furnished by that company? A. Yes, sir, I did.

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Q. Do the Exhibits 48 to 51, inclusive, reflect all the pipe lines shown on those transparencies? A. Yes, sir.

Q. Were the transparencies represented to you by the Phillips Company in the instance of the Eunice plant—in the instance of these four fields, that is, the Eunice, the Fullerton, the Goldsmith and the Crane fields, to be their most current transparencies? A. That is correct.

* * *

[1215]

MR. PURDUE: Mr. Examiner, we offer Exhibits For Identification 48 to 51, inclusive, in evidence.

* * *

MR. SPARKS: In other words, on Exhibit 48, have you shown all of the lines which were shown on the tracing and maps furnished you?

THE WITNESS: Yes, sir.

MR. SPARKS: Is that likewise true with regard to Exhibit

[1216]

49, which relates to the pipe lines at the Fullerton plant?

THE WITNESS: I tried to show on this diagram all of the pipe lines that are shown on the transparency.

MR. SPARKS: Now, on Exhibit 50, I notice that you have one line coming down from the north that runs off of your blocked out line of the sketch, the border line, and there is a cross line goes across the line from the north, is that right?

THE WITNESS: Yes, sir.

MR. SPARKS: Are those the only two lines that were shown on your sketch in that area?

THE WITNESS: Those are the only two that were shown on the transparency, that is right.

MR. SPARKS: I mean on the transparency.

THE WITNESS: That is right.

MR. SPARKS: Very well.

PRESIDING EXAMINER: Is there any objection to Exhibits 48 to 51, inclusive?

(No response.)

PRESIDING EXAMINER: Those exhibits are received in evidence.

(THE DOCUMENTS ABOVE REFERRED TO WERE RECEIVED IN EVIDENCE AS EXHIBITS NOS. 48 to 51, respectively.)

* * *

[1217]

HOWARD MARKLEY

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Purdue

Q. Where do you live, Mr. Markley? A. Odessa, Texas.

Q. Sir? A. Odessa, Texas.

Q. What is your position with the Phillips Petroleum Company? A. I am superintendent of the western district of the natural gasoline department.

[1218]

Q. How long have you held that position? A. A little over seven years.

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Q. How long have you been with the Phillips Petroleum Company? A. Almost 19 years.

Q. Almost 19. Will you, in a brief way, state the other positions you have held with the company before becoming superintendent of the western district of the natural gasoline department. A. I went to work as a laborer in 1932, and worked some as an operator, laboratory technician, and I was foreman of the gasoline terminal for a year, chief operator of the gasoline plant for a year.

Q. What plant. A. Wewoka plant in Oklahoma. I was in the engineering section in the Panhandle district for approximately three years, in the process engineering section in the Bartlesville office after that approximately a year, and was district engineer in the Oklahoma district for about four and a half years, and then went to Odessa as district superintendent.

[1219]

Q. As superintendent of the Western District — is it District or Division? A. District.

Q. As superintendent of the Western District of the Natural Gasoline Department, you have supervision over the operations of Phillips Petroleum Company in the Permian Basin. A. Only in the Natural Gasoline Department.

Q. Is the Permian Basin a large area in southwestern Texas and southeastern New Mexico? A. Yes, sir.

Q. Does your supervisory authority cover both the pipe line facilities in the fields and the operation of the gasoline plants? A. It covers the natural gas gathering systems and the gasoline plants.

Q. Will you specify the names of these gasoline plants and their locations? A. All under my supervision you mean?

Q. In the Permian Basin area. A. We have eight plants in the Permian Basin: The Crane plant near Crane, Texas; the Judkins plant near Penwell, Texas; the Goldsmith plant near Goldsmith, Texas; the Fullerton plant near Fullerton, Texas; the Seminole plant near Seminole, Texas; the Hobbs plant adjacent to Hobbs, New Mexico; the Lea plant adjacent to Buckeye, New Mexico, and the Eunice plant

[1220]

adjacent to Oil Center, New Mexico.

Q. Except for the Judkins plant, does the Phillips Company sell residue gas from these plants to El Paso Natural Gas Company? A. Yes, sir.

* * *

[1225]

Q. Referring to Exhibit 48, which is the diagram of the pipe line facilities of Phillips in the Eunice field, are the separators located at the ends of the small-sized lines shown on that map? A. Not necessarily exactly on the ends of those lines. In some instances they might be at some distance from the ends of those lines.

Q. You would say that those lines terminate at meters; is that correct? A. If this map is complete those lines would terminate at our meter station.

Q. At your meter stations. And then there would be lines extending thence to the separators? A. Ordinarily.

Q. I take it your answer would be the same in the case of Exhibits 49, 50 and 51. Would you refer to them, please.

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which show the pipe line facilities in the Fullerton field, the Goldsmith field, and the Crane field, respectively. A. If these maps are complete and accurate maps of our gathering system, why, the same answer would apply.

* * *

[1227]

Q. Does the gas flow to the plants under separator pressure, or how? A. In these four fields all the gas flows under separator pressure to the plants.

Q. So the pressure decreases somewhat from what it is at the separators before it enters the plants?

[1228]

A. Yes, sir.

Q. At the Crane, Goldsmith, Fullerton and Eunice plants, does Phillips compress the gas and run it through absorbers? A. Yes. We have compressors at each plant that handle wet gas and run the wet gas through absorbers at each plant.

Q. After the extraction of the gasoline and other liquid products from the gas processed in these four plants, does Phillips sell most of the residue gas to the El Paso Natural Gas Company? A. Most of it is sold to the El Paso Natural Gas Company.

* * *

[1229]

MR. PURDUE: Mr. Sparks, have you just produced some maps of the facilities showing the flow in the Eunice, Crane, Fullerton and Goldsmith plants?

MR. SPARKS: I have just completed them this afternoon, yes.

MR. PURDUE: And as I understand you they are somewhat more complete than Exhibits 45-E and 45-F and 45-G and 45-H of a similar nature which staff entered into evidence on Friday?

MR. SPARKS: That is correct. They show more of the detail of the gas flow than the other exhibits.

MR. PURDUE: I have not had a chance to examine these exhibits to which I have referred which have just been handed me. However, I have no objection to your introducing them in evidence as your exhibits.

MR. SPARKS: I would be glad to do so so that you may use them if you so desire in questioning the witness.

[1230]

If the Examiner please, I suggest that we have these flow sheets marked with the same corresponding exhibit numbers that were on the ones that the staff introduced. In other words, the Eunice plant would be 45-E-1 and appear in that position in the record, and then they would be together at that point.

MR. PURDUE: That is satisfactory with us, Mr. Examiner.

* * *

[1232]

PRESIDING EXAMINER: Do you wish to offer these exhibits?

MR. SPARKS: Oh, yes, sir.

PRESIDING EXAMINER: Is there any objection to Exhibits 45-E-1, 45-F-1, 45-G-1 and 45-H-1?

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PRESIDING EXAMINER: Exhibits No. 45-E-1, F-1, G-1 and H-1 are received in evidence.

* * *

[1269]

Q. Now, Mr. Markley, will you go ahead and by reference to Exhibit 45-G-1, describe the flow of the gas through the Goldsmith plant? A. The raw gas from the field comes in from the gathering system lines, these lines that we have been talking about, and passes through several inlet scrubbers. Five are shown on the sketch. Well, I see a total of six shown on the sketch.

MR. McALLISTER: How many are in the plant?

THE WITNESS: I'm sure that six is the correct number in the plant.

From those inlet scrubbers the gas goes into a compressor intake header. From the compressor intake header, the gas goes to the compressors, and from the compressors it goes to the compressor discharge header, and from the dicharge header we have two streams, one going to the three 50-pound absorbers and one going to the El Paso Natural Gas Company.

BY MR. PURDUE:

Q. Are the properties of the El Paso Natural Gas Company shown on the lower right-hand portion of the chart? A. Their plant is designated on the chart.

[1270]

Q. And is the gas metered before it goes to the facilities of the El Paso Company? A. It is.

Q. At the meter on the green line at the left-hand portion of the series of lines running in a northerly-southerly direction on the lower right-hand portion of the diagram? A. No, the stream of gas I have just described—

Q. I see, it is the red line. A. —goes through the left-hand red line on the sketch. It goes through three meter runs. From our 50-pound absorbers, the residue gas, which, of course, is of somewhat lower volume and character than the inlet, goes to a number of different places. One line shows residue return to the field. Another line shown delivers gas to the Sid Richardson Carbon Black Company through meters. Another line delivers fuel for the plant furnaces. Another line delivers fuel for plant boilers.

We come to another residue line that delivers gas to the injection compressors.

MR. McALLISTER: What do you mean by injection compressors?

THE WITNESS: The crude oil producers, some of the crude oil producers, in the Goldsmith field are reinjecting residue gas. We are supplying the compression service for that reinjection gas.

[1271]

MR. McALLISTER: You mean by that lift gas or is it repressuring gas or pressure maintenance gas?

THE WITNESS: Well, I'm not a production engineer, and I don't know what their exact definition for it might be. It is commonly called by the names you gave it, repressuring gas and pressure maintenance. We happen to

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be calling it reinjection gas at Goldsmith.

MR. McALLISTER: Well, it comes within that category. That goes back to them for use in maintaining pressure in the field to aid in the production of oil?

THE WITNESS: I understand that they return it to the reservoir from which the gas came, from which the gas and oil come.

MR. McALLISTER: What was that?

THE WITNESS: I understand they return the gas to the San Andres formation from which we obtain wet gas.

MR. McALLISTER: I mean there is an equal volume goes back or something of that order. It couldn't be identical to gas.

THE WITNESS: I don't know what the ratio of the volume of the reinjection to the volume of the original produced gas may be. It is appreciably less.

MR. McALLISTER: It is less than that produced from the field?

THE WITNESS: Yes, sir.

[1272]

MR. McALLISTER: In volume.

THE WITNESS: Yes, sir.

MR. McALLISTER: But you have no way of maintaining the identity of the gas through this plant, so it is a certain volume that goes back?

THE WITNESS: That is correct.

BY MR. PURDUE:

Q. Mr. Markley, you testified that the raw gas passes through three meters and enters the facilities of the El

Paso Natural Gas Company. Does the El Paso Natural Gas Company compress the gas there? A. Yes, sir. They compress the gas to 600 pounds or less and return it through the other red line which is labeled 600 pound wet gas from El Paso.

Q. Does the gas flow through two meters just after it leaves the property of the El Paso Company? A. Yes, sir.

Q. Proceed, please. A. Do you want me to continue with that stream?

Q. Yes, continue with that stream. A. The 600-pound gas goes through the 600-pound absorber and there is—

Q. (Interrupting.) How many absorbers are there there? A. One.

[1273]

Q. Just one. A. There is a marked change in volume and character of the gas in the 600-pound absorber. The residue from the 600-pound absorber is returned to the El Paso Natural Gas Company. It is cooled somewhat by a cooling coil which is not shown on this sketch. It is returned through the green line through the two meters shown in the lower right-hand corner of the sketch. To pick up the residue from our 50-pound absorbers again, I led some of it to the injection compressors. Some of it goes to our plant gas treater where hydrogen sulphide is removed and the treated gas is used for camp fuel and for engine fuel in our plant, and minor streams are shown there going to camps to the Ector Water Company and to the Ector County Utility Company.

The reinjection gas from the injection compressors is passed through a dehydrator and the major portion of it

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then is delivered to producers through the lines at the top of the sketch, one line labeled 1,100-pound gas to Devonian and others and the other labeled 1,100-pound gas to Phillips Petroleum Company. The rest of that dehydrated 1,100-pound gas is further compressed in the high stage injection compressor and leaves through a line labeled 1,500-pound injection gas to Phillips Petroleum Company.

We have a number of vapor streams in the plant. The vapors from the rich oil flash tank and the vapors from the

[1274]

condenstate flash tank and the vapors from the high stage accumulator and ordinarily the vapors from the fractionator all go to the reabsorber. The reabsorber residue is shown entering the residue from the 50-pound absorbers.

A line is shown here from a point between the make tank and the high stage accumulator leading to the compressor intake header. There are periods when vapors flow through that line to that intake header. It isn't a continuing stream, and they do not flow at fixed intervals.

MR. McALLISTER: Why isn't there a continuous stream?

THE WITNESS: The line is there to take care of vapors which during regular operations are handled by the plant removal compressors. We have four recompressors and when one or more of those may be down, we can't handle all of the vapor stream that flows from the make tank to the high stage accumulator, so at times when we can't handle it through the recompressors, we divert that stream to the compressor intake header.

* * *

[1301]

Q. Yes, all right. Mr. Markley, will you describe the flow of gas through the Crane plant and into the facilities of the El Paso Company? A. Yes, sir. The raw gas comes from the gathering lines through the several large diameter pipes we have been talking about through three inlet scrubbers shown on the sketch. The figure two is designated there after one scrubber in one instance, and in the other instance the figure one is designated after the scrubber. It comes from those two inlet scrubbers to the engine room, where it enters the gas compressors.

Gas is boosted there and leaves the engine room through another red line labeled 24-inch and goes through two meters to two absorbers. After passing through the absorbers, the residue gas goes to various points. We show towards the top of the sketch the three meters, metering three streams of residue gas. One is residue return to leases, the other is residue to the flare, and the other is residue for gas lift.

[1302]

Going back to the top absorber and taking another residue line, we find that it is over here past the middle of the sketch a way where it is labeled 20-inch, and at that point we have a brown line, which represents plant vapors, coming into the 20-inch. From that point the residue, composite residue or the combined residue, goes to the El Paso Natural Gas Company's station through two meters, which are shown outside the plant fence.

Other residue gas goes to the boilers for boiler fuel. Some then goes to the gas treater, where hydrogen sulphide

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is removed and that sweetened gas is used for various purposes. Some is delivered to the Humble Pipe Line Company's crude oil pumping station. Some is delivered to the Southern Union Gas Company, some to Texas-New Mexico crude oil pipe line pumping station and several streams are delivered to camps.

Treated gas is also used for fuel for the plant engines. We also have a connection that will permit us to use treated gas for fuel for the boilers.

We have some vapor streams over here shown in brown lines. Vapors from the primary vent tank are introduced to the raw gas before it enters the absorbers. The vapors from the secondary vent tank, the make tank and the fractionator feed tank are, after a combination there, introduced to the reabsorber and the fractionator overhead is also

[1303]

introduced to the reabsorber. The residue from the reabsorber is shown so it can go either of two ways, either to the El Paso Natural Gas Company, as I have described, or it can go to the boiler fuel line.

I believe that traces out all the lines shown on this sketch, sir.

* * *

[1311]

Q. Mr. Markley, in the instance of all these areas in the Permian Basin about which you have testified, namely, the Eunice, Fullerton, Goldsmith and Crane areas, is there a continuous uninterrupted flow of the gas from the well heads through the flow line separators, through the pipe

line facilities of Phillips Petroleum Company leading to the plants, through the respective plants, and into the meters and pipe lines of El Paso Natural Gas Company? A. That is a very long question and I think it should be broken down. I would have to answer it "no".

Q. In what respect is there not such a continuous uninterrupted flow? A. The flow of gas from the leases, the casinghead gas which we purchase is frequently interrupted.

Q. Where, at what point. A. Well, it is interrupted at the leases coming from the separators.

Q. Is the flow interrupted after it leaves the separators? A. Under normal operations it would not be.

Q. What would be the operations under which it is never interrupted? A. After it leaves the separators, you mean?

Q. Yes. A. Of course, in the case of line breaks or changes it would require our cutting the line and taking them out of

[1312]

service for repairs, say, or additions.

Q. Except for a particular line or facility being temporarily shut down, as for repairs, or for similar reasons which you have stated, is there a continuous uninterrupted flow of the gas from the separators through the pipe line facilities of Phillips leading to the plants, through the respective plants, and into the meters and pipe lines of El Paso Natural Gas Company? A. Ordinarily, except for those things that I mentioned, the flow would be continuous, and it would certainly not be constant. I do not know

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whether you mean uninterrupted by partial interruption or complete interruption, but there are quite sharp fluctuations in the flows of gas in those lines and into the plants.

Q. The flow goes on seven days a week, 24 hours a day, does it not? A. Not all the flow from the separators, and the flows in the lines would depend on whether or not all the separators to which those lines are connected are out of service or not. There may be times when appreciable sections of the field, if you include oil and gas production, might be stopped, and it might stop the flow through at least a portion of our gathering system.

Q. But except for the times and periods when the oil production at the wells leading to a particular separator

[1313]

is stopped the flow is continuous and uninterrupted from those separators on? A. Except for those times when we have emergency repairs or reconstruction, I think that is true.

BY MR. McALLISTER:

Q. Whatever gas is flowing to El Paso represents an uninterrupted continuous flow from whatever wells it is produced in association with oil? A. Yes, sir.

BY MR. PURDUE:

Q. And there is a continuous and uninterrupted flow of gas to the El Paso Company, is there not? A. No. There are times when we have to shut our plant down and do not deliver gas. When we have an emergency shutdown naturally there is interruption of flow. I could not say it was continuous.

Q. But except for those emergency periods the flow is continuous and uninterrupted to El Paso. A. *Well, they have down time, too, of course. Except when the time when they are down or we are down or the volume of gas produced in the field doesn't leave sufficient residue to sell to them, why, it would be continuous. There are times in extremely cold weather at some points when we do not have enough gas coming through the plant to sell El Paso any.

Q. Those times are infrequent, are they not?

[1314]

A. Well, yes, I would say they are. They might occur — that particular instance might occur once or twice a year, usually when El Paso needs the gas the worst.

Q. Mr. Markley, I wish you would clear me up on the matter of the flow of gas from the wells to the separators at such time as there is production of oil at the particular wells leading to a separator as the flow of gas continues uninterrupted from the wells to and through the separators. A. Not always, sir. There are times when the oil and gas producer runs what he calls a test, various tests, and they set the test separator and will produce the oil and gas through that test separator and cut out the separator from which we take gas.

BY MR. McALLISTER:

Q. He flares the gas there? A. He releases it to the air.

Q. He vents it or flares it. One is leaving it flow to

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*[Note correction at R. 1881.]

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the air freely, and the other is to light a match to it and let it burn. It is one or the other. A. That is right.

PRESIDING EXAMINER: You are speaking now of individual wells, are you not?

THE WITNESS: Individual wells or individual leases, yes, sir.

PRESIDING EXAMINER: And while those particular wells may be

[1315]

shut down there is still a continuous flow of gas from other wells through the plant into the El Paso lines.

THE WITNESS: That would be ordinarily true, yes, sir.

* * *

[1341]

Q. The residue flare occurs when? A. It occurs when we have more gas coming into the plant than we can dispose of through our sales outlets. Well, that would be the determining factor, when we cannot get rid of all the residue, why, we will have to flare it if we cannot sell it.

Q. Do you flare it or just vent it? A. We flare it.

* * *

Q. What is the largest amount that you flared in any one day, as you recall it, since January 1, 1951? A. Well, since January 1951, there have been times when the El Paso Company was down and we flared all of our residue except that used for lease use and our own fuel needs.

* * *

[1344]

Q. I am not talking about the average. What I am trying to get at: Would there be in some days, relatively every month throughout the year, when there would be substantial volumes flared? A. Some one day, say, during every month?

Q. Yes. A. That is altogether probable, because the El Paso Natural has frequent shutdowns of all or part of their equipment, and when they are down we have to flare residues.

Q. Would that same condition apply to the other plants, Eunice, Crane and Goldsmith?

[1345]

A. Yes, sir.

* * *

[1372]

Examination by Mr. Torkelson

* * *

[1379]

Q. Again, you said that there were about 730 wells in the Crane area? A. That is right.

Q. Some of these wells are owned by people other than Phillips? A. Practically all of them are. Phillips has, oh, very few. I think only two leases, and perhaps not as many as eight wells.

Q. Could you give me just a general proportion that come from wells owned by Phillips and that that comes from

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wells owned by other people? A. Well, I doubt if over one or one and a half per cent of the gas produced in the McElroy field and coming to Crane plant is produced by Phillips. I don't know, it is a very small amount.

Q. And the balance comes from wells owned by someone else? A. Yes, sir.

* * *

[1380]

Cross Examination by Mr. Sparks

Q. Mr. Markley, let us go back to the wells.

Except for wells which have a casinghead, does the gas come up through the tubing in solution with the oil? A. Yes, sir.

Q. On those wells which have casingheads on them the so-called casinghead gas comes between the tubing and the casing? A. Yes, sir.

Q. Then there is a connection at the top of the well, whether it is a well with or without casinghead, is that right? A. Yes.

Q. If it is a well with a casinghead is the casinghead gas introduced into the same line with the oil and the gas which is in solution in the oil? A. It often is that way; if you bring the connection off the casinghead to the top of the well, why, they will pipe it back into the flow line between the well and the separator. By the flow line I mean the line that carries the oil and the gas from the well.

Q. Those flow lines are connected to the wells and they run from there to the separator? A. Yes, sir.

[1381]

Q. And they carry both the oil and the gas? A. Yes, sir.

Q. Are the separators located on the lease on which is located the wells from which the oil is produced? A. They are always so located in that area.

Q. Is there ever more than one separator on a single lease? A. Quite frequently.

Q. Is there often more than one well connected to a single separator? A. Yes, sir.

Q. If the lease has wells on it which produce from more than one producing formation is there a separate separator for each producing formation? A. There is.

Q. And does that situation exist in numerous instances at, for instance, the Goldsmith area? A. Yes, it does.

Q. May there be also on the same lease more than one separator, even though the wells on the lease are producing from only a single producing formation? A. Yes. That frequently happens and frequently exists.

Q. Would you describe what a separator is and the point on the separator where the flow line ordinarily connects?

MR. McALLISTER: That is f-l-o-w, flow line?

[1382]

MR. SPARKS: Yes. That is the line that carries the oil and the gas from the wells to the separator.

THE WITNESS: The purpose of the separator is to effect a separation of the oil and gas. The separator ordinarily is a vertical cylindrical vessel and you have, perhaps, an arrangement of baffles or pipes which are designed to

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help the gas and the oil separate and to force a reasonable separation.

BY MR. SPARKS:

Q. And also any water that may come in there? A. And any other liquids, water that may be mixed with the oil, too.

The flow line bringing the oil and gas is ordinarily connected into a verticle separator at the point in the middle or somewhat above the middle of one side of the vessel.

Q. In the areas which the Goldsmith, Crane, Eunice and Fullerton plants are located, does the lease operator own and operate the flow lines? A. Yes, sir.

Q. Does he own and operate the separators? A. Yes, sir.

Q. Is there a connection on top of the separator for a line which takes off the gas after it has been separated from the oil? A. Yes. At the top of the separator the gas as separated

[1383]

within the separator comes off. The oil is removed from the separator in a connection at the bottom and the water, if any, is removed from the bottom connection, too, of course.

Q. Prior to the time when Phillips connects for the purpose of taking casinghead gas — and I am speaking of all this gas that is produced with oil as casinghead gas because it is legally so defined in Texas, although it may come through tubing in solution with the oil as distinguished from that coming between the tubing and casing

as casinghead. So when I speak of casinghead gas I mean any gas that is produced from an oil sand and is produced with oil. I understand that.

MR. McALLISTER: You mean in solution with the oil?

MR. SPARKS: If it is produced from the oil sand and the same producing horizon as the oil and is produced with the oil, that is casinghead gas, yes.

MR. McALLISTER: The same solution, there may be some free, but it is the production of oil that comes out through the same stream, the same well. Is that right?

MR. SPARKS: That is right, although casinghead gas literally comes between the tubing and the casing and is not in solution with the oil at least at that point.

MR. McALLISTER: At that point it is not. I was just trying to see if we could get some understanding here that it is not the type of gas that is produced from an oil sand but is relatively produced from a dome and is an entirely

[1384]

different thing.

MR. SPARKS: I am not speaking of that, no.

BY MR. SPARKS:

Q. Prior to the time Phillips makes its connection to take casinghead gas, is it customary for the producer to lay his flow lines and set his separator tank, Mr. Markley? A. Yes, sir.

Q. Does he also build a vent line from that tank? A. That is the regular practice.

Q. Does that vent line take off from the top of the

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tank? What purpose does it serve? A. Well, it is to dispose of the gas, get it out and away from the separator to a relatively safe point. That is done by bringing a line from the top connection of a separator out and it comes down to the ground and may go into the ground, and it may be left on top of the ground. Then it would extend out a way from the separator a matter of, oh, 20 or 100 yards, depending upon the whim, perhaps, of the producer. There he will erect a riser on the line and support it with guy wires, ordinarily. Through that line and that riser the gas will be vented. He will have in the horizontal portion of that line on the ground, usually, a valve which will serve to hold a constant pressure on the separator and the gas is relieved through that valve.

[1385]

Q. Where does Phillips ordinarily connect with its line in order to take gas from the producers; in the areas that are covered by the Exhibits 48, 49, 50 and 51? A. We will connect to that vent line that the producer has built. We connect at the point between the separator and the back-pressure regulator.

* * *

[1395]

PRESIDING EXAMINER: The answer will have to be confined to that which comes under his immediate supervision and observation; otherwise, I think, the witness could not be allowed to testify.

BY MR. SPARKS:

Q. Will you so confine your answer, Mr. Markley. A. Natural gas as gathered into the plant in the western district, Goldsmith, Eunice, Fullerton and Crane contains hydrocarbons. I will list them in the order of their increasing density:

Methane, ethane, propane, isobutane, normal butane, isopentane, normal pentane, isoethanes, normal ethanes, isoheptanes, normal heptanes, iso-octanes and normal octanes, and isononanes and your normal nonanes, isodecanes and normal decanes, and a long chain of other hydrocarbons that occur in lesser increasing amounts.

Q. Does the natural gas also often contain other elements in the hydrocarbon series?

MR. McALLISTER: I object, Mr. Examiner. That is not within the ruling of the Examiner.

MR. SPARKS: I am speaking of the gas which comes under

[1396]

his supervision.

MR. McALLISTER: Now, Mr. Examiner, does it often contain them? Where are we going? We are just going down the road where we are going to have to go back and spend hours correcting something that should have been in the record on the basis of actual analysis. All we are doing is prolonging and making more difficult a competent, realistic, understandable, actual record of what transpires. I renew my objection to this line of questioning so as not to encumber this record.

PRESIDING EXAMINER: The objection is overruled.

THE WITNESS: The natural gas in the four plants

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in question contains in addition to the hydrocarbons I have listed nitrogen, carbon dioxide and hydrogen sulphide and water vapor.

* * *

[1425]

Q. And all of those vapors are vapors from the distillation system which have been absorbed into the absorption oil as it passes through or over the raw gas in the absorber? A. That is true.

Q. What is the volume of the reabsorber residue which is introduced into the absorber residue that goes to El Paso?

* * *

A. That volume averages approximately 1,300,000 cubic feet per day.

BY MR. SPARKS:

Q. I believe you already stated in your direct examination the approximate volume of the composite residue gas which is delivered to El Paso, have you not? A. Yes, sir.

Q. Just repeat that.

[1426]

A. Approximately 80 million feet per day, currently.

Q. What is the Btu content of the reabsorber residue which is commingled with the absorber residue and the composite delivered to El Paso? A. The Btu content of the reabsorber residue is about 1,130 Btu per cubic foot. The Btu content of the composite residue delivered to El Paso is about 1,050 Btu per cubic foot.

Q. Is the hydrocarbon composition of the absorber resi-

due different from the hydrocarbon composition of the reabsorber residue? A. Yes, sir.

Q. Is the hydrocarbon composition of the absorber residue and its Btu content different from that of the composite residue, including the reabsorber residue? A. It is.

Q. Would you now turn to Exhibit 45-F-1, the flow sheet covering the Fullerton plant. A. I have it.

Q. All of the raw gas processed in that plant is taken through the compressors, the raw gas compressors? A. It is.

Q. Does it come into a common header? A. Yes, sir.

Q. Before taken into the compressors?

[1427]

A. Yes, sir.

Q. Is there a common header on the discharge side of the compressors? A. There is.

Q. Is the gas in the field commingled at each of those points. A. Yes, sir.

Q. I notice that there are five absorbers at the Fullerton plant. Is there a common residue discharge header on the discharge side of those absorbers? A. Yes, sir.

Q. So that the residue gas from the various absorbers is again commingled in that header? A. Yes, sir.

Q. I notice on this flow sheet that the various plant vapors which are finally accumulated in the high stage accumulator are delivered into the raw gas upstream from the absorbers, is that correct? A. Yes, sir.

* * *

[1463]

Q. Mr. Markley, I ask you to look at Exhibit 48. A. I have it.

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Q. By what name are the lines which collect gas from the producers and deliver to the Eunice plant known? A. Wet gas gathering lines.

Q. Is that designation applied to the large diameter sized lines up to the 24-inch, I believe, in this particular case, which extend from the plant in diminishing size as they go farther out into the field, as well as the smaller lines which connect to individual separators? A. It is.

Q. Are those lines commonly called gas gathering lines in your day-to-day operations in the field? A. They are.

Q. Is that the name which is commonly applied to lines collecting gas from wells or separators of producers and

[1464]

delivering it to gasoline plants? A. Yes, sir.

MR. McALLISTER: You are referring to the ones which you operate?

THE WITNESS: The ones I operate and the ones others operate.

BY MR. SPARKS:

Q. Are there also in the Permian Basin area in which you operate plants for Phillips Company gasoline plants of other companies? A. Yes, sir.

Q. Will you name some of them? A. Shell Oil Company, the Skelly Oil Company —

Q. Can you name a plant or two? A. The Shell Oil Company's TXL plant, Odessa Natural Gasoline Company's Odessa plant, Stanolind Oil and Gas Company's North Cowden plant, Stanolind Oil and Gas Company's Fullerton plant, the Shell Company's two plants in the Waltham field, and

the Warren Petroleum Company's Monument plant, the Sid Richardson Gasoline Company's Keystone plant, the Cabot Company's plant near Kermit — I do not know what they call the plant — the Gulf Oil Company's Eunice plant. Those are the ones that are closest to our realm of operations. There are other plants in the Permian Basin that are further out from those we operate.

[1465]

Q. Are there lines at those plants which collect gas from the wells or separators of producers and deliver to the gasoline plants? A. I cannot speak to my knowledge of all the plants I mentioned, but the majority of them I know that they have separators and gas gathering lines and that they have gas gathering lines connected to producers' separators.

Q. As to the ones to which you have knowledge, are those lines spoken of by the operators as gas gathering lines? A. They are.

Q. I call your attention to Exhibit No. 49, which is a diagram of pipe line facilities at the Fullerton plant, and ask you by what name are the lines which Phillips operates and through which it collects gas from the separators of producers and delivers it to the Fullerton plant now? A. They are known as gas gathering lines.

Q. And does that terminology apply to all of those lines, including the larger diameter lines that lead into the plant? A. It is.

Q. I now direct your attention to Exhibit No. 50, which is a diagram of the pipe line facilities at the Goldsmith

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plant, and ask you by what name are the lines known as through which Phillips Petroleum Company collects gas from the separators of the producers and delivers it to the plant? A. They are known as gas gathering lines.

[1466]

Q. Does that terminology apply to all of such lines, including the larger diameter lines that lead into the plant? A. It does apply.

Q. I call your attention to Exhibit No. 51, which is a diagram of pipe line facilities at the Crane plant, and ask you if the lines through which Phillips Petroleum Company collects gas from the separators and producers and delivers it into the Crane plant are not also known as gas gathering line. A. They are so known.

Q. And that terminology is applied to all of said lines, including the larger diameter lines that lead into the plant? A. It is.

* * *

[1473]

Redirect Examination by Mr. McAllister

[1486]

Q. Do you make any Btu analysis of the gas, the raw gas, coming in over each of the lines leading into the plant? A. Of each of the lines coming into the plant?

Q. Yes. A. No. It would be very unusual for us to sample the individual gas gathering lines coming into the plant.

Q. With respect to the gas from individual leases, where do you make the tests to determine the Gpm content

of the gas from various leases? A. We make those tests from the connection on the meter setting.

Q. The meter setting where? A. The meter setting on the line coming from the separator.

Q. How often do you make those tests? A. Every three months.

Q. Every three months. Well, then, the lines coming into the plant, you make no tests as to the Btu content or the Gpm content in the gas that comes in by individual lines and before those lines join at the common header, is that right? A. No, sir, we wouldn't test those individual lines.

[1487]

Q. Where do you maintain pressure gauges to determine the pressure of the gas in those individual lines that lead into the plant? A. Do you mean close to the plant?

Q. You told us all morning about the pressure of the gas in the lines that come into the plant. Now, where do you measure that? A. We measure it on the compressor intake header or headers, as the case may be.

Q. That is a composite pressure, that wouldn't give you the pressure on individual lines, would it? A. Well, on the 50-pound gas at this plant—

Q. No, but I'm not talking about that. That is something entirely different from the normal line, isn't it? That 50-pound line doesn't go into the common header that we have been talking about from the other lines. A. It doesn't go into the engine intake header, no.

Q. We are talking about the line that you say you measure the pressure at the common header, and I have

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asked you where do you determine the pressure on the individual lines as they come into the plant and before they join the common header. A. We have pressure connections out at the scrubbers on the gathering lines.

Q. On each individual line as it comes in?

[1488]

A. I couldn't assure you we have one on each line as it comes in, no, sir.

Q. Well, each line operates as a separate entity, does it not? A. We don't consider them—we bring them all together. They are all part of the system.

* * *

[1541]

PRESIDING EXAMINER: Please come to order.

I have received an order of the Federal Power Commission dated April 16, 1951, and issued April 17, 1951, granting the motion of Phillips Petroleum Company to limit the issues in this proceeding, in this hearing.

The order is a rather long one, and I will not undertake to read all of it, but I think that I should at least read into the record at this time the ordering clauses of that order. I now quote:

"The Commission ORDERS:

"A. The matters to be presented at the public hearing now in progress shall be only those relevant to the following issue set forth in the Commission's order of investigation issued October 29, 1948, to wit:

"Whether Phillips Petroleum Company is a 'natural gas company' within the meaning of the Natural Gas Act.

"B. A public hearing be held upon the remaining issues set forth in the Commission's order of investigation issued October 29, 1948, at a time and place to be fixed by further order of the Commission.

"C. The motion to limit issue filed herein by Phillips Petroleum Company on March 27, 1951, is granted

[1542]

to the extent herein ordered, and in all other respects is denied. By the Commission. Commissioner Buchanan dissenting."

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[1545]

HOWARD MARKLEY

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

Redirect Examination (Resumed) by Mr. McAllister

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[1555]

Q. What are the orders of the railroad commission of Texas which control or govern the—I said govern—or specify the circumstances under which you may flare gas from any one of these three plants in Texas that we have been

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discussing? A. The commission issued cease-flare orders, which applied to McElroy Pool, Goldsmith, and Fullerton. The orders are a little bit ambiguous as to what the gasoline operator is in if he has to flare gas. I don't know what position we are in if we flare gas at the plant as far as violation of the commission's order is concerned. If the producers deliver the gas to us we take it. If we have to flare it, we flare it.

Q. And you don't know whether you are complying with the rule of the Railroad Commission or not, is that it? A. I am sure that we are. I understand that we are. We have been assured by the Commission representatives that we have not done anything that we will be criticized for or that they consider a violation.

Q. I mean, in other words, your rule is this, if the producers produce oil and gas in association with that oil, and that gas comes to you and the total volume at any time is in excess of that which you can dispose of as residue gas of the gasoline plant to the connections to which you normally deliver it, then that excess may be flared, is that the rule that you follow?

[1556]

A. It is flared, yes, sir.

Q. What is that? A. It is flared.

Q. I mean is that the rule? You flare the gas if you have no immediate outlet for it? A. Yes, sir.

Q. And it is that rule that determines when you will flare and when not? A. Well, if we have more gas than we can handle, we flare it.

Q. Do you make any report— A. (Interrupting.) It is just a practice, not a rule.

Q. Suppose you flare five hundred million out of a plant each day—I don't say that you do presently—would you discontinue doing that day after day or would you be under any obligation other than this GP-1 report at the end of the month? Is that the only report you would be under obligation to make to the Railroad Commission, or would you make a special report of some kind saying the production is so much that we must flare, say, five hundred million cubic feet of gas per day, just what would you do? A. I would report it on the GP report for that month.

Q. And nothing else? A. No, sir.

• • •

[1562]

Examination by Mr. Torkelson

Q. Mr. Markley, you are, of course, an employee of Phillips Petroleum Company? A. I am.

Q. Prior to the time that you took the stand as a witness in this proceeding, you discussed your proposed testimony with the lawyers of Phillips Petroleum Company, did you not. A. I did.

Q. And you have discussed your testimony since the time you were first called as a witness during recesses

[1563]

and noon lunches and during the course of the evenings? A. Yes, sir.

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Q. And in the course of that discussion the significance of the word "gathering" insofar as it affected the particular proceeding now before this Commission was explained to you, was it?

• • •

[1564]

A. It was not.

BY MR. TORKELSON:

Q. Was the term gathering discussed? A. I was asked what I called the lines, the wet gas lines, what we called them in the field, and I explained that we called them gas gathering lines.

Q. Have you ever read the natural gas act? A. No, sir.

Q. You have no idea as to the significance of that term as applied to that act? A. I am aware there must be a lot of significance applied to it from all the conversation about it, but I don't know what the significance is.

Q. You say there was a considerable conversation about it? A. I told you what was said, sir.

• • •

[1568]

Examination by Mr. McAllister

Q. Have you ever made any study to determine what in truth might be gathering or transmission or field or lease lines lying within the entire areas from which gas is collected through these four plants that we have been discussing, the Crane, the Eunice, Goldsmith and Fullerton plants? A. The question was pretty long. I missed the first part of it.

Q. The gist of it is have you made any study to determine how each of these lines ought to be classified? A. No. It isn't a matter of a study procedure. It is just a matter of practice that has existed through all my experience in the industry, Mr. McAllister.

Q. I was just asking you if you made a study to determine that. I mean you have just picked it up and used it as a matter of course, because that is what the lines are referred to in your day to day operation, is that right? A. Yes, sir.

Q. And it is because of that general use of the term that you have used it here, is that right? A. Yes, sir.

[1569]

Q. And you have made no study to determine whether or not it is in truth right according to some definition that someone might lay down? A. We know—

Q. Just answer the question. I mean it isn't based upon any study which you have made? A. No, sir, it is not.

Q. You don't know of any study that has been made of that character, do you? A. No.

MR. McALLISTER: That is all I have.

PRESIDING EXAMINER: All right, Mr. Sparks.

Recross Examination by Mr. Sparks

Q. Mr. Markley, in reviewing the facts with you concerning what you might be called upon to testify to in this proceeding, did I ever tell you how you should answer any question that might be put to you? A. You have not.

* * *

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[1576]

GEORGE C. ROTH

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Joffee

Q. Will you state your name, please? A. George C. Roth.

Q. Will you spell it? A. R-o-t-h.

Q. What is your occupation? A. I am assistant to the operating manager of the Cities Service Gas Company.

Q. You have been subpoenaed to appear here as a witness on behalf of the City of Kansas City, Missouri, in this proceeding? A. I have.

Q. Are you familiar with the pipe line system of Cities Service Gas Company? A. I am.

Q. And particularly in the State of Oklahoma? A. I am.

Q. Mr. Roth, are you also familiar with the purchases of gas made by Cities Service Gas Company in the State of

[1577]

Oklahoma? A. Yes.

Q. Does it purchase gas from Phillips Petroleum Company at any other place on the Phillips system? A. No.

Q. Will you explain just where Cities Service Gas Company does purchase gas from Phillips Petroleum Company? A. The Cities Service Gas Company purchases gas from

the Edmond field, the Hunton unit, of which Phillips Petroleum Company is a member.

Q. The Edmond field is located in Oklahoma County? A. Yes.

Q. And the purchases made by Cities Service Gas Company are made in fact from Phillips Petroleum Company, isn't that true? A. No, the gas is bought from the Edmond unit of which Phillips Petroleum Company is a part or participant.

Q. Do you pay your money to Phillips or to someone else? A. We pay Phillips.

Q. You pay your money to Phillips Petroleum Company? A. Yes.

Q. For all of the gas that you acquire from the Edmond unit, is that correct? A. That is correct.

[1578]

Q. Do you know of the exact interest which Phillips Petroleum Company has in the Edmond field unit? A. My information is that it is about 19.6 per cent.

Q. That is based on the records of your company, Mr. Roth? A. Yes, sir.

Q. Where does Phillips Petroleum Company or the Edmond unit deliver the gas to you? A. At the discharge of the West Edmond plant and the Hunton plant and the Trindle plant.

Q. Do you have information as to the amount of gas which was delivered to Cities Service Gas Company at those points in 1948, '49 and 1950? A. Yes, sir.

Q. Will you give them, please? A. In 1948, Cities

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Service Gas Company received from the so-called West Edmond plant 25,876,651 Mcf; in 1949 from the same plant, 29,993,377 Mcf; in 1950 from the same plant, 30,058,127 Mcf; there was no gas received from the Hunton or Trindle plant during 1948 and '49. In 1950, the Cities Service received from the Hunton and Trindle plants 6,495,704 Mcf. That is on a 16.4 pounds pressure base.

Q. At what prices were these respective quantities of gas sold or delivered to the Cities Service Gas Company?

[1579]

A. I only have the average prices for the year. 1948, 5.8 cents; 1949, 6.2 cents; 1950, 6.4 cents.

Q. Mr. Roth, the gas is metered to Cities Service Gas Company at what pressure? A. The gas is metered at delivery pressure, approximately 500 pounds pressure.

Q. And after entering the Cities Service Gas Company's pipe line at the Edmond field plant, will you then trace the flow of the gas from that point? A. You mean specifically as to volumes or generally, Mr. Joffee?

Q. Generally as to volumes and the approximate amount of volumes as best you can, Mr. Roth. A. From the West Edmond plant, approximately 16 million cubic feet per day go directly to Oklahoma Natural Gas Company's line. Approximately 28 million per day goes into the Cities Service Gas Company's 10-inch line, which feeds into the Oklahoma City-Blackwell 20-inch line. Approximately 41 million cubic feet per day feed into a 12-inch line to Drumright compressor station. From the Hunton and Trindle plants, approximately 29 million cubic feet per

day feeds through 8- and 12-inch lines into the Oklahoma City-Blackwell 20-inch line. Of the gas that feeds into the Oklahoma City 20-inch line, approximately 30 million per day is later delivered through a 16- and 12-inch

[1580]

line to Drumright station. I believe that gives the disposition of the Hunton gas.

[1581]

Q. Now, from the Drumright station, in what direction does the gas flow? A. North, from Drumright to the general system, extending into Kansas and Missouri.

PRESIDING EXAMINER: Where is the Drumright station located?

THE WITNESS: The Drumright station is in Oklahoma, probably 60 miles south of the Kansas line. I am not sure of that distance, Mr. Examiner.

BY MR. JOFFEE:

Q. Now, Mr. Roth, the gas flows from the Drumright station in Oklahoma north and east to the Tallant station, which is also in Oklahoma, does it not? A. Yes, sir.

Q. And from thence into the Caney station in Kansas, is that correct? A. No, sir. That gas from that line does not go to the Caney station. It feeds directly to Gravois station in Kansas, due north.

Q. And from thence into the state, farther into the state, of Kansas, and into the State of Missouri, is that correct? A. Yes, sir.

Q. And it is intermingled with other gas which later flows in a northerly direction up to Kansas City, Missouri,

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[1582]

isn't that correct? A. Yes, sir.

Q. And isn't that generally true also of the gas that flows north to the Blackwell station and from thence northerly through Kansas up to Kansas City, Missouri? A. Yes, sir, that is true.

Q. Would you be able to say approximately what proportion of the gas which is delivered at the Edmond Field to Cities Service Gas Company reaches the states of Kansas and Missouri? A. It would be only an estimate, but probably about 75 per cent of it.

Q. What part of the deliveries per day do Cities Service Gas do? A. Sir?

Q. What do they average, what do these deliveries average a day each day from the Edmond Field to Cities Service Gas Company? A. About 115 million a day.

Q. About 115 million cubic feet of gas per day? A. Yes, sir.

Q. And you pay for that gas to Phillips Petroleum Company and of that gas, according to the records of your company, Phillips Petroleum Company has a 19.6 per cent interest, is that correct? A. Yes, sir.

[1583]

Q. Do your company's records show how much gas was sold and delivered by Cities Service Gas Company to the city gate at Kansas City, Missouri? A. Yes, sir.

Q. Was that gas sold to Gas Service Company at the city gate? A. Yes, sir.

Q. Will you give the figures in volumes and dollars

for the years 1948, '49 and '50? A. In 1948 deliveries by Cities Service Gas Company to the Gas Service Company at Kansas City, Missouri, town borders amounted to 23,386,264 MCF. The amount charged for that gas was $3,936,154.56.

In 1949 the deliveries were 26,153,946 MCF, amounting to $4,395,841.63.

In 1950 the deliveries were 41,881,745 MCF, amounting to $6,451,086.02.

Q. Do you have the average price per MCF paid for those three years? A. Yes, sir. The average price at Kansas City, Missouri, town border in 1948 was 16.8 cents, for 1949 it was 16.8 cents, and for 1950 it was 15.4 cents.

Q. Mr. Roth, do you know that that gas was delivered to Gas Service Company at Kansas City, Missouri, for distribution and sale for ultimate consumption in Kansas City, Missouri,

[1584]

do you not? A. Yes, sir.

* * *

Q. Do you happen to know the location of the meters measuring the gas delivered to Cities Servies Gas Company at the Edmond Field? A. Yes, sir. I thought I had a memo on that. But the gas from the West Edmond Plant is measured approximately—I would like to change that. There are two meters. Part of the gas from the West Edmond Plant is measured approximately 5 miles from the plant, east of the plant, and part of it about 8 miles northeast of the plant.

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Q. Is it measured on property of Cities Service Gas Company or on property of Phillips Petroleum? A. Cities Service Gas Company property.

Q. Does this gas come from the Edmond Gasoline Plant in part? A. Sir?

Q. Does this gas come from the Edmond gasoline plant in part? A. Yes, sir.

Q. Most of it comes from the Edmond Gasoline Plant,

[1585]

isn't that true? A. The gas that we buy from the Edmond Field comes from the Edmond Gasoline Plant, and Hunton Plant and the Trindle Plant.

Q. Will you spell those words for the reporter, please. A. E-d-m-o-n-d, H-u-n-t-o-n, T-r-i-n-d-l-e.

Q. Isn't it a fact that the Edmond Gasoline Plant is operated by the Phillips Petroleum Company? A. Yes, I understand it is operated by Phillips Petroleum Company.

Q. The other two plants are not operated by Phillips, is that correct? A. I don't believe they are.

Q. Mr. Roth, is the flow of the gas from the Phillips Petroleum Company's facilities into the pipe line of Cities Service Gas Company, and from thence through the pipe lines of Cities Service Gas Company, into the lines of various local distributing companies continuous and uninterrupted? A. With the exception of gas put into underground storage in the summertime and then moved on to the markets in the wintertime.

Q. And that applies to the gas delivered to the City of Kansas City, Missouri, also? A. Yes, sir.

Q. And these gas storage fields to which you refer

[1586]

are located outside of the State of Oklahoma, are they not? A. Yes, sir, they are in Kansas.

Q. They are in the State of Kansas? A. Yes, sir.

* * *

Examination by Mr. Joffee

Q. Perhaps I had better ask this, Mr. Roth, the gas that goes into storage between the points of delivery in the Edmond Field and Kansas City, Missouri, are at the north and south Welda Storage Fields and Craig Storage Fields, is that correct?

[1587]

A. That is correct.

Q. Usually in the wintertime that gas or some substantial part of it reaches the City of Kansas City, Missouri, isn't that true? A. Yes, sir.

Q. And is delivered into the distributing system in Kansas City, Missouri? A. Yes, sir.

* * *

[1590]

Q. Were there subsequent contracts entered into with respect to this gas field, Mr. Roth? A. Yes. In 1949 Cities Service Gas Company negotiated

[1591]

a contract to take gas from the Hunton plant and the Trindle plant.

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they not? A. No; the Trindle plant is just a compressor thel not? A. No; the Trindle plant is just a compressor plant at this time.

Q. Is that plant operated by Phillips Petroleum Company. A. I don't know who operates it. We are dealing with the unit and the Sohio Oil Company represents the unit under that contract, but I don't know who operates the plant.

Q. So far as the Trindle plant is concerned, does the Cities Service Gas Company pay its money to Phillips for the gas or does it pay its money to Sohio Oil Company? A. The Cities Service Gas Company pays the money to Phillips upon an order from the Sohio Oil Company.

Q. Do you know—I don't know whether I have made myself clear—whether Phillips Petroleum Company actually operates the Trindle compressor station? A. I don't know.

Q. What was the name of the other station? A. The Hunton plant.

Q. Is that operated by Phillips Petroleum Company? A. I don't know. I understand that it is not, but I don't know for certain.

Q. For gas delivered from that plant does the Cities

[1592]

Service Gas Company pay therefor to Phillips Petroleum Company? A. Yes, sir.

Q. And with respect to the gas delivered from the Trindle and Hunton plants Cities Service Company entered into the contract in 1949? A. Yes, sir.

Q. As a seller of the gas? A. Cities Service Gas Company entered into the contract as the buyer.

Q. As the buyer? A. Yes, sir.

Q. And the Phillips Petroleum Company entered into it as the seller of the gas? If you don't know, we will refer to the contracts later. A. Under that contract we made separate contracts with the majority of the unit interests. I suppose 95 to 98 per cent of the interests. The remaining part of the gas is delivered to us by Sohio for the other interests, so long as they don't want to deliver those particular interests, don't want to deliver to some other market.

Q. But in each instance you pay Phillips Petroleum Company for the gas as the seller thereof, is that true or not? A. We pay them the money: I wouldn't say we pay it to them as the seller of the gas. We pay the money to them

[1593]

under an agreement. They disburse the money to the other interests.

Q. Was the last contract entered into that of 1949? A. Yes, sir.

Q. Was this Hunton plant a gasoline plant? A. Sir?

Q. Was this Hunton plant—is that the name of it—a gasoline plant? A. Yes, sir.

Q. And you do not know who operates that plant? A. No.

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[1602]

Cross-Examination by Mr. Sparks

Q. Do you understand, do you know, what kind of gas is produced from the West Edmond unit, that is, whether it is casing head gas or dry gas? A. I understand that it is casing head gas.

Q. Produced from wells that produce oil? A. Yes, sir.

Q. Now, I believe in answer to a question on direct examination you stated that you paid the Phillips Petroleum Company for the purchase price for the gas which was delivered to Cities Service from these three plants, and it was your understanding that the Phillips Petroleum Company disbursed that money, I believe you said, to other interests. What other interests did you have in mind? A. I mean the interests in the Hunton unit and the money was disbursed in proportion to the ownership of gas of those interests, of the gas that was sold.

Q. Were those interests the lease owners? A. Yes, sir.

Q. I believe you stated that delivery of the gas was

[1603]

made to Cities Service at the discharge of the plants. A. Yes, sir.

Q. And the Cities Service owns the lines from that point on wherever the gas is taken? A. Yes, sir, that is right.

Q. And although some of the gas, all of the gas, from the Edmond plant, is metered at some distance from the point of delivery Cities Service also owns those meters, is that right? A. Yes, sir.

Q. Taking the gas from the West Edmond plant, I believe you said first that approximately 16 million per day is delivered to the Oklahoma Natural line, is that right? A. Yes, sir.

Q. Where is that delivery made? A. That is a direct connection between the Oklahoma Natural lines and the Edmond plant. The Oklahoma Natural constructed a line from their pipe line system approximately three quarters of a mile north of the plant down to the plant, and take delivery of the gas, of course, at the plant.

Q. All right, then does Oklahoma Natural pay you for the gas that they receive? A. Yes, sir.

Q. And do you know the disposition of the gas which Oklahoma Natural takes in their line, do you know where it goes?

[1604]

A. It goes into their general pipe line system.

Q. And do you know where the gas goes in their general pipe line system? A. Only to their markets and Oklahoma, Oklahoma Natural is an intrastate company. All of their lines are in the State of Oklahoma, and they distribute gas in Oklahoma City, for example, and at Tulsa and numerous other smaller towns.

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[1657]

On the sale of the gas out of the West Edmond plant by Phillips to Cities Service or by Phillips and Continental Oil Company, where does that sale take place, does your line run clear up to the plant, to the fence around the

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plant, or what point? A. As I recall, the delivery is made at the plant fence, at or near the plant fence, the boundary of the plant.

Q. Which is several hundred feet from the plant? A. I don't remember what the distance would be.

Q. What is that— A. I believe our agreement is that we were to take the gas at the property line of the plant.

Q. I see. You have a line leading away from that point. That is what size line would you say? A. We have from the West Edmond plant a 10-inch line and we have a 12-inch line.

Q. Yes? A. And Oklahoma Natural has an 8- or 10-inch line.

Q. All of those lines run from, let's say, the property line? A. Yes, sir.

* * *

[1666]

A. H. SCHUMACHER

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Joffee

Q. Just state your name, please. A. A. H. Schumacher.

Q. Where do you live, Mr. Schumacher? A. Kansas City, Missouri.

Q. By whom are you employed? A. The City of Kansas City.

Q. In what capacity? A. As utilities engineer.

* * *

[1667]

Q. Do you know of your own knowledge what natural gas distribution companies now serve Kansas City? A. I do.

Q. What are they? A. The Gas Service Company and The Central West Utility Company.

Q. From what natural gas pipe line companies do these respective utilities purchase their gas? A. The Gas Service Company purchases its gas from the Cities Service Gas Company and The Central West Utility Company is supplied by Panhandle Eastern Pipe Line Company.

* * *

[1668]

Q. Do you have the figures on the amount of gas purchased by Gas Service Company from Cities Service Company for its Kansas City, Missouri, division in the years 1948, 1949, and 1950? A. During the year 1948 The Gas Service Company purchased from the Cities Service Gas Company 23,362,630 and 2/10 Mcf; for 1949 26,101,079 and 5/10 Mcf; and during 1950

[1669]

41,792,183 and 3/10 Mcf.

* * *

Q. How much gas did the city government of Kansas City, Missouri, buy from The Gas Service Company during the year 1950? A. 191,425 Mcf.

Q. And that was represented by how many different accounts of The Gas Service Company? A. We have, I believe, 72 accounts with The Gas Service Company.

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Q. So the city administration is a user and purchaser of gas as well as the people of Kansas City? A. That is right.

Q. These sales of gas by these two respective utilities are continuing in Kansas City, Missouri, at the present time, are they not? I am referring now to the distributing companies. A. Yes, they are continuing.

Q. And both companies operate under franchises granted to them by the city government of Kansas City, Missouri, isn't that correct? A. That is true.

* * *

[1671]

ROBERT BOYD STEWART

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Purdue

Q. Will you state your name? A. Robert Boyd Stewart.

Q. Where do you live, Mr. Stewart? A. I live in Bartlesville.

Q. What is your position with the Phillips Petroleum Company? A. I am Assistant Manager of the Natural Gas Department.

* * *

[1674]

Q. I hand you what is designated as a notegram, dated July 7, 1948, and which recites "Memo to Allen B. Hyatt from R. B. Stewart." Did you prepare that notegram? A. Yes, sir.

Q. And also the attached sheet entitled "Additional Acreage Shown by New Michigan-Wisconsin Exhibit A"? A. Yes, sir.

* * *

[1680]

MR. PURDUE: Mr. Examiner, I'd like at the present time—I don't care to argue that point at this minute—to have the memorandum dated July 7, 1948, which the witness has stated that he prepared, marked for identification as the next exhibit in order.

PRESIDING EXAMINER: That will be marked for identification as Exhibit No. 53.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED FOR IDENTIFICATION AS EXHIBIT NO. 53.)

PRESIDING EXAMINER: Would you describe that please for the record. I believe that it is a notegram from Mr. Stewart to Mr. Hiatt dated July 7, 1948?

MR. PURDUE: July 7, 1948, consisting of one sheet and an attached sheet also in the handwriting of the witness entitled additional acreage shown by new Michigan-Wisconsin Exhibit A.

* * *

[1744]

MASON G. WALTERS

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

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Redirect Examination (Resumed) by Mr. McAllister

Q. Mr. Walters, you are the same Mason Walters who has heretofore testified in this case and been sworn? A. I am.

MR. McALLISTER: Mr. Examiner, I ask to have marked as Exhibit 54 a document identified as outside sales of Natural Gas, year 1950.

PRESIDING EXAMINER: It will be so marked.

* * *

Q. Mr. Walters, I refer you to Exhibit 54, which has been marked for identification, and ask you whether or not that exhibit was prepared by you. A. It was.

Q. Referring to the first sheet in that exhibit, let's call it first page, because there is following that another document marked Sheet I, which is a photostat of certain pencil or pen figures, and at the top of that sheet

[1745]

marked Sheet 1 of one, it is indicated that that is a summary for the year 1950 of outside sales of natural gas by Phillips Petroleum Company, is that right? A. That is right.

Q. When you refer there to outside sales do you mean by that sales by Phillips Petroleum Company to individuals and companies who are not a part of the Phillips organization as contrasted with inside sales represented by volumes of gas delivered by Phillips Petroleum Company to other departments of the Phillips Petroleum Company for chemical, synthetic rubber or what not, where the operations are carried on by Phillips Petroleum Company within their

own organization, is that right, is that an accurate description? A. That is correct.

* * *

[1786]

MR. McALLISTER: Mr. Examiner, I ask to be identified at this time an exhibit identified as outside sales of natural gas for the year 1949, and ask that it be marked for identification as Exhibit No. 55.

PRESIDING EXAMINER: It will be so marked.

* * *

Q. Mr. Walters, do you have a copy of Exhibit 55 for identification before you? A. Yes, sir.

Q. Was that exhibit prepared by you? A. Yes, sir.

* * *

[1787]

Q. Sheet 1 is a summary sheet, is it not? A. Yes, sir.

Q. Is that summary sheet in Exhibit No. 55 the same, I mean so far as heading, descriptive content and so forth, as the summary sheet in Exhibit 54? I mean other than the different in pressure base. A. There is a small difference in pressure base here, this being at 14.735 p.s.i.a. The headings are the same as in Exhibit No. 54. There is a slight difference in some of the items on the left-hand side. By that I mean the sales to the Wasatch Oil Refining Company appear on this exhibit and did not appear on the sales for 1950. Outside of that they are similar.

* * *

[1789]

Q. And without going through the individual details on this exhibit on the summary sheet, is it true that the

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items that appear on the total sales and total sales dollars, the first being Mcf, are figures reflected on the records of Phillips Petroleum Company for the year 1949? A. They are.

* * *

[1796]

A. M. RIPPEL

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Purdue

Q. Will you state your name? A. A. M. Rippel.

Q. Where do you live, Mr. Rippel? A. Bartlesville, Oklahoma.

Q. What is your profession? A. I am employed by Phillips Petroleum Company.

Q. What is your position with that company? A. I am now manager of the Gas Department.

Q. How long have you held that position? A. Since March 1, 1951.

Q. How long have you been in the employ of the Phillips Petroleum Company? A. Since December 1, 1925.

Q. Will you state the other positions which you have held and the respective lengths of time that you occupied those positions? A. With Phillips Petroleum Company?

Q. Yes. A. From December 1, 1925, until December 1, 1937, I

[1797]

was evaluation engineer attached to the Comptroller's Department. December 1, 1937, I was transferred to the natural gasoline and gas department as assistant manager of the gas division. I held that position for a year or year and a half and was then more or less considered the manager of the division. However, I believe it was not on any chart. And I have held that position, then, up until March of this year.

* * *

[1867]

HOWARD MARKLEY

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

* * *

[1869]

MR. McALLISTER: Mr. Examiner, I would like to have marked for identification as Exhibit No. 58 a statement which has been supplied by Mr. Sparks showing volume of gas processed and the volume flared from gasoline plants in the Panhandle-Hugoton Field, such plants being the Dumas plant, Sherman plant, Hansford plant, Gray plant and Sneed plant for the year 1950 and for the month of March 1951.

PRESIDING EXAMINER: That will be marked for identification as Exhibit No. 58.

* * *

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MR. McALLISTER: I offer at the same time, Mr. Examiner, as Exhibit 59, for identification a tabulation showing the same information for the years 1950 and for the month of March 1951 in relation to the Crane plant, Goldsmith plant, Fullerton plant and Eunice plant in what is known as the western district gasoline plants of Phillips Petroleum Company, they being the plants in the Permian Basin.

MR. McALLISTER: Isn't that true, Mr. Markley?

THE WITNESS: Yes, sir, that is true.

PRESIDING EXAMINER: The document described by counsel will be marked for identification as Exhibit No. 59.

* * *

[1870]

MR. McALLISTER: So the exhibit may be marked for the furnishing of the copies, I offer them in evidence at this time, Mr. Examiner.

PRESIDING EXAMINER: Is there any objection to the exhibits 58 and 59?

(No response.)

PRESIDING EXAMINER: Exhibits 58 and 59 are received in evidence.

* * *

[1881]

A. 1313. And the lines are 19 to 23, 19 through 24, since giving this testimony I have checked the sales records and find that I was mistaken there had been occasions due to cold weather when we were entirely out of gas for sale

to El Paso from these four plants. The answer to the question beginning with line 19 should be, "Well, they have down time, too, of course, except for the times when they are down or we are down, it would be continuous."

Q. Then that would be eliminating the volumes of the gas produced in the field does not leave sufficient residue—You eliminate those words. I mean in other words, the volume of gas, there is also a continuous and uninterrupted flow to El Paso?

[1882]

A. With the exceptions that I put in the answers, yes, sir.

Q. Except when they are down for some reason or you are down for some reason, a line break or something like that? A. That is correct.

* * *

[1898]

Q. The last reference you made was to page 1419, line 10, that was that answer you corrected. A. That is the last one, yes, sir. The next one will be on page 1421, line 11. We got into that somewhere later in the record and it was a misunderstanding. The answer on line 11, page 1421, should be yes, sir.

* * *

[1902]

MR. McALLISTER: They are right on this question. "To" is what it should be. It should be a correction actually in the record.

* * *

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[1973]

PRESIDING EXAMINER: Is there any objection to these exhibits? [Exhibits 54 and 55.]

MR. SPARKS: We object to the dollar figures as being irrelevant.

* * *

[1975]

PRESIDING EXAMINER: The objections to Exhibits 54 and 55 are overruled.

Those exhibits are received in evidence.

* * *

[1977]

A. M. RIPPEL

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

Direct Examination (Resumed) by Mr. McAllister

Q. Mr. Rippel, as I recall your testimony, you were first employed by the Phillips Petroleum Company as an evaluation engineer? A. That is correct.

Q. You are a graduate engineer, are you? A. Yes, sir.

Q. And you were employed as an evaluation engineer from December 1, 1925, until December 1, 1937, as I recall your testimony? A. That is correct.

Q. And from December 1, 1937, until the present time you have been with the gas department of Phillips Petroleum Company? A. The gas division and then the department.

Q. The gas division up until March 1, 1951, and then the gas division from then on?

[1978]

A. Gas department from then on.

Q. Gas department from then on. And you are manager of the gas department now and has there been a substantial change in your duties or have they remained substantially the same as they were prior to March 1, 1951? A. My responsibilities have been increased to the extent of the gathering of gas where the market determines the amount produced.

Q. That would be, for example, the sales through Sherman and Hansford plants? A. That always has been my responsibility, the sales through Hansford plant.

Q. Can you give us an example of the increased duties to which you refer related to operations? A. Where the market determines the amount of production, the gas department has the responsibility of the gathering, the actual control over the men in the field. Prior to March 1, 1951, that responsibility was in the gasoline division of the natural gasoline and gas department, they having been our operators, that is the gas divisions operators.

Q. Yes. Now give me an example of where that existed prior to March 1 and where they are now under your jurisdiction and supervision? A. In dry gas fields and in distillate fields, we have the complete operation from the well to the sale, with the

[1979]

exception of the extraction of the gasoline.

BLEED THROUGH

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Q. Yes. Now, where— A. (Interrupting.) Prior to March 1 we did not.

Q. What is an example of an operation where that-- A. (Interrupting.) The Borger area.

Q. What? A. The Borger area.

Q. Is that the only one you recall? A. No. The Michigan-Wisconsin area, Panhandle Eastern area.

Q. The what? A. Panhandle Eastern, Hansford block, Chocolate Bayou area. Well, the Chocolate Bayou area doesn't change. We have always produced that.

Q. How about the Permian Basin? A. The Permian Basin, we have the gathering and sale. As far as responsibility of the actual gathering, has done by the natural gasoline department, because in that instance the sale does not determine the amount of production. The control of the gas produced is in the hands of the others, the oil operators.

Q. Am I to understand that no one of the gasoline plants that we have been talking about in this proceeding, the Hansford plant, Sherman plant, the Gray plant, the Dumas plant, or the Sneed plant, none of those come under your jurisdiction?

[1980]

A. Insofar as extraction of natural gasoline and other liquifiable hydrocarbons, it does not.

* * *

[1981]

Q. In all of the cases where you have jurisdiction over the gathering of gas, as you call it, that gas moves

from the well head through connecting pipe lines into the plant, gasoline plant? A. If there is a gasoline plant where we gather gas, it does enter a plant which is partly a part of the gathering system.

Q. Why do you say it is a part of the gathering system? A. Because it, in fact, is. The gas is not gathered until it's —at least the residue part of it is not gathered until it is— delivered for sale.

Q. Why do you say that? You are defining your statement by a restatement of the same proposition? A. Well, I want it clear.

Q. I mean you just repeated it. It is because it is. What are the facts? The gas when it enters the gasoline plant has been assembled into a single continuous flowing stream, isn't that right?

[1982]

A. Don't ask me about too many facts about what happens at a gasoline plant.

Q. I am not. This question I have has nothing to do with a gasoline plant. I said it comes into the plant and is collected into one continuous flowing stream that is the commingling of all of the gas from whatever source it comes at that point, isn't that a fact? A. The raw gas, yes, is commingled at one point.

Q. And that is the entire input of gas into the gasoline plant? A. Raw gas, yes.

Q. And nothing remains to assemble the volume which is the volume to be processed through the plant? A. The volume of raw gas to be processed in the plant, that is correct.

• • •

BLEED THROUGH

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[1985]

Q. You know the principal elements in a gasoline plant are, first, the scrubbers, I mean passing up other incidental equipment as it goes through the scrubbers, you know that the flow is continuous, do you not? A. Yes, sir, it is in a series of baffle plates.

Q. In that operation there is no equipment between the point gas comes in to the plant and up through the scrubbers, where the flow is not continuous. True, there may be compressors in there, but the gas goes into a common header and through the compressors and on through the scrubbers, is that right? A. I thought the testimony here was that the gas comes through the scrubbers first, to take out impurities, and then goes to absorbers.

Q. Well, what you say may be true. I think you are probably right. A. I don't know too much about the detail.

Q. Well, through the scrubbers, through any compressors that may be there and through the absorbers, there is no piece of equipment along there that interrupts the continuous flow of the gas?

[1986]

A. Not to my knowledge.

Q. And then from the absorbers, disregarding the overhead vapors and what not that may be recovered through the distillation of the circulating oil in the absorbers, the residue gas out of the absorbers continues in its uninterrupted flow on through the lines that carry the residue gas to, let's call it, market, whether it be a carbon black plant or to a pipe line such as El Paso, Panhandle or Michigan-

Wisconsin? The gist of that question was—I made it a little bit long— A. (Interrupting.) Outside of perhaps treating the gas, I believe the gas is in constant movement. However, we must consider the overhead vapors coming in, because that is a part of the residue, which is sold.

Q. Well, those overhead vapors move into the residue stream, although they are first absorbed, I mean they are a part of the liquid hydrocarbons absorbed in the circulating oil in the absorbers, and then after renovating that oil they are recovered overhead as vapors and led back into the residue gas stream? A. Led back to the stream which makes it all the residue gas.

* * *

[1990]

Q. I just wanted to state that you did not know of any such interruption to the flow of gas in the manner in which I described it in my question. The gathering lines which come under your jurisdiction—let me put that a little more clearly—the gathering lines which are in operation between the wells and the gasoline plant are assembled or laid in a form which provides for large diameter pipe lines, relatively speaking, which connect with the gasoline plant and as they fan out to the wells they reduce in size and

[1991]

increase in number as they connect to the various wells in the field, isn't that right? A. Yes; a gathering system is designed by the engineers to provide a minimum drop of pressure, considering economics, through their experience

BLEED THROUGH

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they estimate which is the most economical type of a system to build to gather the gas for processing and sale.

Q. That is indicated by the manner in which the lines are designated on the maps of your engineers by the large lines being given a letter designation, such as A, B, C, D, and then as the lines lead away from those, they are given A-1, A-2, or whatever designation they deem appropriate, in other words, the A, B, C, lines lead into the plant and the other lines are lines connected with the letter designations to which a further numeral or letter is attached, isn't that right? A. I learned about three weeks ago that that is correct. I didn't know it before that. That is on some maps and on our engineering maps that is so.

Q. Your engineers are the ones who design the lines? A. That is correct.

Q. And the system which they laid out is the system which they designed? A. Yes.

Q. And you are familiar with these exhibits, 12, 13, 14

[1992]

and 15, are you not? A. May I see them, please?

Q. That is 12. This is 14-A. A. I have seen the exhibits.

Q. Those lines with the letter designation on them, whether 16 or 24-inch lines on Exhibit 12 leading into the Hansford plant, might be given a name or descriptive term and they might be called trunk lines, might they not? A. In the first place they lead into the Sherman plant.

Q. Oh, Sherman plant, yes, sir. A. And you may call them trunk lines. I wouldn't. We don't speak of them in that manner.

Q. I know you don't speak of them that way, but looking at that map and considering their size and the branch lines emanating from them, they provide the trunk line connections between the smaller lines in the field and the plant, do they not? A. They provide the connection through large diameter pipe.

Q. Why would you object to calling them trunk lines? A. If you wish to define them as trunk lines, I'll use trunk. I just don't refer to them as trunk.

Q. Well, you can call them backbone lines, then? A. I call them large gathering lines.

Q. I know you would. You like the term gathering, but

[1993]

I was trying to select a term that would be descriptive without trying to use the term—I could call them transmission lines, but I don't for the purpose of this questioning. I am trying to gather from you, through your knowledge of the facts, what the function is of those lines in relation to all of the lines in a particular area. A. The function is gathering gas.

* * *

[2014]

Q. Why do you say that gathering can't be completed until the gasoline has gone through the gasoline plant? A. The only purpose of gathering natural gas is to dispose of it, whether through use, sale and the gas, the natural gas, as produced is gathered, prepared for market and disposed of, in its preparation, the liquifiable hydrocarbons are taken out, removed and sold. That is a part of the natural gas.

BLEED THROUGH

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After the extraction of the liquifiable hydrocarbons, the term residue is commonly used, and that is what is sold or used in the majority of our sales and uses.

* * *

[2020]

Q. I will, I will; you go ahead and take all of the time you want to explain your answer. A. Gathering of natural gas, to me, is the collection of the gas from wells or points in or near the leases where

[2021]

the gas is produced to a point or points in or near the field of production through his system of pipe lines and the preparation of the gas for market. Now, as I started to say, you are asking me for maybe a legal interpretation. You stipulate the point of delivery, and I assume the title to the gas is passed to Michigan-Wisconsin. The part that to me is still a conditioning, that didn't happen, and that to me is part of gathering, the conditioning of natural gas to make residue gas and gasoline. Now, as to whether legally that would be part of gathering, it is in or near the field. A hundred miles wouldn't be in or near the field.

Q. Five miles would? A. Well, it would be. There could be wells on the other side of it. I know there are wells on the other side of the Hugoton field beyond a point of five miles from the Sherman plant. That is the basis—

Q. (Interrupting.) From which the gas comes into the Sherman plant? A. No. Well, yes, the gas comes into Sherman plant, yes. Gas from Texas County, Oklahoma.

Q. You would say, then, that even though the gasoline plant was located on the downstream side from Michigan-Wisconsin compressor station where you owned the plant and you processed the gas and the contract with Michigan-Wisconsin gave you that opportunity or that right, gathering has not

[2022]

been completed until you process the gas? A. Well, it is a function of gathering.

Q. I mean you are telling me that now, but I am asking you a practical problem. Do you say that gathering— A. (Interrupting.) You just don't do it that way practically, Mr. McAllister.

Q. No, but you thought about it here under this circumstance and I'm trying to find out what the limits of your definition are. A. I tried to answer.

Q. Tell me this, is the gasoline plant if on the downstream side from the first compressor station of Michigan-Wisconsin and it is your gasoline plant and you operate the gasoline plant and you take out of the stream of gas the liquid hydrocarbons in the same fashion in which you do now, would you say that gathering has not been completed until the gas leaves your gasoline plant under those circumstances? A. I thought I answered that.

Q. Well, it either has been completed prior to that time or it has not? A. The gas certainly has been conditioned for market and that is part of my idea of gathering. As to location beyond where the title to the gas has gone to Michigan-Wisconsin, the actual function is the same.

* * *

BLEED THROUGH

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[2024]

Q. Now I ask you another question, and I have given it to you, where you deliver the gas to Michigan-Wisconsin, they

[2025]

compress it, and then it passes through your gasoline plant, and I have asked you if, in your concept, under those circumstances gathering has not been completed until the gas passes out of your gasoline plant, and you can answer that yes or no, if you will. A. Under that circumstance, that is a function of gathering.

Q. And gathering has not been completed, just answer that question. You argue. Has it been under those circumstances, you say that gathering has not been completed until the gas passes through that gasoline plant? A. I think that is right.

Q. All right. Now, then, the next question, all of the facilities of Michigan-Wisconsin upstream from the gasoline plant are gathering facilities, is that right, the compressor station and the pipe line that they have is a part of the gathering, is that right? A. I wouldn't so consider it.

Q. You wouldn't so consider it. In other words, you have gathering facilities and transportation facilities and gathering facilities again, is that right? A. The gasoline plant, the residue gas as conditioned and delivered to them is a function of gathering and that is what is done.

Q. Then on a gasoline plant it wouldn't make any

[2026]

difference if it was a hundred miles upstream, then, it

wouldn't be completely gathered until it went through the gasoline plant, no matter where it is located, is that right? A. I believe I would call it a different function if it weren't in or near the field, Mr. McAllister.

Q. It has to be in or near the field? A. That is correct.

* * *

[2030]

A. If I understand this exhibit correctly, the first time that the raw gas is commingled is in the 26-inch header which shows under that absorber with the numeral nine after it. That is insofar as the raw gas volume is concerned. My idea of gathering is the preparation of the gas which we are going to market. That is part of gathering.

Q. In other words, in the first place the entire volume of gas into a plant must be assembled in one volume? A. It could be a separate volume for different sale. I don't just recall what plants in our system that might apply to. There could be separate systems for different sales on different specifications.

Q. Well, there might even be two volumes going to the one sale if the volume is joined afterwards for some purpose of operation, isn't that right?

[2031]

A. If the residue that was sold joined after the processing through the absorbers, it would still be a function of gathering, yes, sir.

Q. Which would be the function of gathering? A. The entire operation, gathering the product of which we dispose, just as we gather the gasoline in the tanks.

* * *

BLEED THROUGH

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[2032]

THE WITNESS: If the natural gas as produced is not dehydrated, desulphurized, compressed, liquified hydrocarbons taken out or removed or any other operation incidental to the conditioning of the sale of this natural gas, if none is done before delivery to a market, that is my idea in a general way of gathering.

* * *

[2037]

Q. All right, I'll limit that question to gathering as you have defined it. A. The functions that we do in the collection of gas through a system of pipe lines and preparing it for market in accordance with our contracts is gathering.

Q. And if you have to dehydrate and remove sulphur under your contract, then that is a part of gathering,

[2038]

according to your notion? A. That is certainly the way I believe.

Q. And if under the contract you are not required to do that, then it is not a part of the gathering? A. By my own understanding of gathering, the way I look at it, that is correct.

* * *

[2093]

Q. Yes, but in the normal course of business, day to day operations, hour by hour, minute by minute, there is a volume of gas flowing from Phillips to Michigan-Wisconsin. I don't say it is constant, but it varies as to certain

amounts, but there is that constant flow of gas? A. That is correct.

Q. And in order to provide that constant flow of gas to Michigan-Wisconsin there is a constant production in the wells connected with what you call your gathering system, isn't that right? A. The gas must be produced from the wells before it can be gathered and delivered to Michigan-Wisconsin, that is correct.

Q. The question is this, in order that there be that constant flow out to Michigan-Wisconsin, there must be a constant production and movement of gas through what you call your gathering system. The constant flow to Michigan-Wisconsin

[2094]

would not be possible without the constant flow from the wells in your Sherman system through what you term your gathering lines, is that right? A. Constant flow through the entire facilities, yes, sir.

Q. And the same is true at the Hansford plant, through the gathering system of the Hansford system, as you define it, through the Hansford plant and through your connection with Panhandle Eastern, is that right? A. That is the purpose of gathering the gas.

Q. I know it is the purpose, but I'm asking you as a fact— A. (Interrupting.) To fill the market you have to produce it and you have to gather it.

Q. And it is a constant movement right all the way through? A. With possibly a drop in pressure, why, there is constant movement.

* * *

BLEED THROUGH

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[2097]

Q. You haven't so stated. All right, I just misunderstood you. And just as the movement of gas through the Hansford and Sherman plants from the wellhead to the point of delivery with Michigan-Wisconsin and Panhandle, at those points, is continuous, a continuous and uninterrupted flow is what I mean, it is constant, so also are the deliveries by Phillips through the Gray plant, the Sneed plant, the Dumas plant, the Goldsmith plant, the Eunice plant, the Crane plant, and the Fullerton plant, isn't that right? A. If I understood your question correctly, you just ask it is constant through the Hansford and Sherman plants. It is true at all these other plants is my memory of the way the question was stated.

Q. I didn't mean constant volume. I mean continuous.

[2098]

It is better, a continuous flow. A. There is a continuous movement between the system of pipe lines in the plants until the gas is delivered.

Q. All the way from the wellmouth? A. From those wells that are connected.

Q. Those wells that are connected? A. Yes.

* * *

[2103]

Q. Well, that is one of those turns down the road that we can't see beyond. Are you familiar, Mr. Rippel, with the cost of constructing 24 and 30-inch pipe line? I have in mind the 24-inch lines recently constructed from the

future site of the Tex Booster Station into the Sherman plant? A. No, sir, I am not. I know in a general way. I know an estimate was made and the work was done. I probably saw it, but the figure didn't stick with me.

Q. I mean on a million dollar basis, a 24-inch line be on the basis of $50,000 a mile, do you know?

[2104]

A. Something on that order, I would imagine. It used to be a thousand dollars an inch. Now, it is getting up to two thousand an inch. Some people use 1700, 1800, depending on the length of the pipe and how the labor market is. Those matters —

Q. (Interrupting.) Well, what I am interested in, and I want you to know the full import of your answer is 160 miles of pipe line that Michigan-Wisconsin has built up to the vicinity of the Missouri River at the time the August 9 contract was entered into, August 9, 1948, contract was entered into, that was about 160 miles, and I thought that if you figured that at about fifty thousand dollars a mile, which would mean about eight million dollars worth of pipe in the ground at that time, we could let it go at that. I am prepared to prove the figures, but if you will agree that that is a fair and representative figure from your knowledge of cost, I think we can let it ride at that. A. I would imagine that that is a fair figure.

Q. It would certainly be on the order of eight million dollars spent in that pipe line construction? A. If it had been laid and paid for there would have been eight million dollars spent, yes, sir.

* * *

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[2107]

GEORGE P. BUNN

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. McAllister

Q. Mr. Bunn, I believe you are employed by the Phillips Petroleum Company? A. Yes, sir.

Q. What is your full name? A. George P. Bunn.

Q. And you have been employed by the Phillips Petroleum Company for how long? A. Since 1921.

Q. During that period of time, will you state briefly for the record what positions you have held with the company? A. Well, since the beginning until about 1930 I was the assistant to manager of the natural gasoline and gas department and from 1930 until March of this year I was manager of the natural gasoline and gas department and since that date manager of the natural gasoline department.

[2108]

Q. Manager of the gasoline department? A. Natural gasoline department.

Q. Would you state for the record briefly what your duties include, just what that natural gasoline department is? A. Do you mean now or through the years?

Q. Now. A. Now it involves the operations, the company operations, in whole or in partnership in natural gasoline manufacturing plants and various types of special products plants such as synthetic fuels, chemicals; it in-

volves the purchase of considerable gas as a supply for those plants; it involves the administration of all of the activities of the department, that is, the management of the personnel, the organization of the department, the design of the plants, the direction of construction, installing, sale of plants, the disposition of some of the products; it involves membership in the company's operating committee and various other committees of the company.

* * *

[2121]

Q. And as you operate these plants, in the normal course of business, which might be referred to as your day to day operations, there is a continuous flow of gas into the plant and a continuous flow of gas out, isn't that true? A. Except for interruptions, yes.

Q. Well, interruptions which would be in the face of a breakdown or what-not? In any 24-hour period there would hardly be a break in the continuous flow of gas of normal operations? A. Continuous flow through the plant?

Q. Yes, sir. A. That is right. The outlet of the gas might vary in that time, however.

Q. The volume? A. The direction.

Q. How do you mean the direction? A. Well, it might go to one place part of that time and

[2122]

another place in greater volume at another time rather than all to the same place.

Q. Well, that would be true in, let's say, at the Goldsmith plant? A. It might be true in any of them.

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Q. Could it be true in the Sherman plant? A. Yes, sir.

Q. I don't fully understand your answer. A. Well, the gas might not flow continuously at sometimes to, let's say, Michigan-Wisconsin from the Sherman plant, it might go to the air for a short period. There might be instead of a shutdown of the plant, there might be difficulty on the Michigan-Wisconsin system, and the plant might continue to operate rather than for all the wells to be shut down immediately.

Q. Well, I have an exhibit here which shows for the Sherman plant in the year 1950, which is Exhibit 58, and they show no volume flared during any of the 12 months of 1950 and for the month of March 1951 no gas flared, so that condition would not have occurred at the Sherman plant during that period? A. That is right.

Q. So that it isn't a very frequent occurrence, as you mentioned, that this escape or venting of gas to the air or flaring it takes place?

[2123]

A. No, that is right. It isn't a thing we even want to happen.

Q. Nobody wants a thing like that to happen, because it is just a plain ordinary waste of gas. A. But you asked me in the day to day operations and I had to assume in a longer period of time it can happen.

Q. Yes, it can happen, but if you took a month's period or a week's period a period something like that it would be unlikely, would it not, that there were any times when there was not a continuous flow to Michigan-Wisconsin through the Sherman plant? A. There would be, we

would hope that there would be, no occasion where we would vent any and that there would be a continuous flow of a part of the gas coming to the plant.

* * *

[2132]

Q. And so far as the casing-head gas in these four plants that I have just named, Crane, Goldsmith, Fullerton and Eunice Plant, the gas is produced in association with oil and the oil is the controlling element that is regulated at point of production and the gas comes with it and into the plant and if there is no market for it, you have no election but to flare it, as I understand it? A. That is right, if it comes to the plant we have no election if the outlets aren't great enough to absorb it.

Q. At the Crane Plant, this shows that for the year 1950 out of 11 billion 604 million 420 thousand cubic feet was processed and of that volume 3 billion 981 million 754 thousand cubic feet was flared, which means that considerable

[2133]

more than a third of the total gas in that plant in the year 1950 was flared. The others don't run as high as that. There is 392 million 72 thousand at the Goldsmith Plant, 889 million 611 thousand at the Fullerton Plant and 1 billion 77 million 804 thousand at the Eunice Plant, but there are only two months at the Fullerton Plant where there was no gas flared, that is, January and February of 1950 and at the Eunice Plant there was January, February and March there was no gas flared, so that as those plants are now

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operating it is almost a constant occurrence that gas is flared at those plants, is that right, this Exhibit shows that? A. Through the year it was.

Q. Now we come down to March 1951 and that shows that there was some gas flared in each and every one of those plants? A. That is right.

Q. So that apparently it is a continuing situation, is that right? A. Well, it has shown so for that year and for the month of March this year. We may improve it in time.

Q. If we go back the other way in '48 and '49, do you think there is a better picture than this? A. No.

Q. It would be worse? A. Well, yes, it would be better back sometime in the

[2134]

past because there wasn't much gas coming into these plants, but it will be improved some in the future.

Q. Would you say in the usual, normal, regular day's operation of these four plants in the Permian Basin that we have just been talking about, the Crane plant, the Goldsmith plant, the Fullerton plant and the Eunice plant, as well as the Sherman, Hansford, Gray, Sneed and Dumas plants in the Panhandle and Hugoton area, that with respect to all of those plants that the flow of gas through such plants is continuous? A. The flow of gas through the plants is continuous?

Q. Yes.

* * *

[2136]

Q. Well, where it is a volume of gas moving out through the line connecting with the interstate pipeline, there must

be, that must be, gas that has moved in a continuous stream from the point of production all the way through the plant except where you might valve off a little line from time to time, but when you open that, well, then, it enters the stream and goes on out, isn't that right? A. There is bound to be a continuous flow of the gas from some sources through the plant connection into a sale, if that were the major outlet of the plant, regardless of the variation of the sources of gas, else by the very nature of the

[2137]

gas, there is no place for it to go, it either goes or it is not going, it is not produced or it is produced. You'd have to put it in underground storage or build large holes for it. It just can't help but be continuously moving in the major mass.

Q. And there are no underground storage places being utilized in the Texas-Oklahoma area? A. There is continuous movement through the plant to every outlet we have, whether it be vent, an interstate pipe line, an intrastat pipe line, a fuel connection, whether it be carbon black or whatever it is, it is bound to be continuous by the very nature of the material if the plant is running at all.

* * *

[2147]

Q. When you say gas is conditioned, are you there referring to desulphurization? A. I am referring to quite a few things.

Q. Anything that can happen in a gasoline plant? A. No, no.

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Q. I thought you did. Now, I don't know, I didn't mean that in any—I just thought that is what you were referring to. A. The things we have to do to the gas to meet the specifications under which it is to be delivered.

Q. I see. If you have to take out the sulphur, that is one of the things. If you don't have to take it out, then it isn't one of them? A. That is right.

Q. If you have to take out the water content that is one thing? A. That is right.

Q. If you don't have to, well, it isn't. I mean it all depends on your contract what conditioning means? A. That is right. Your whole purpose for gathering gas is for disposal and you have to meet the conditions for disposal or there is no use in gathering it.

Q. One thing is certain, that you can't increase the Btu content of gas flowing out of a plant to a point higher than it was when it came in.

[2148]

A. Yes, you can.

Q. How? A. Oh, there are a number of ways. In the first place, the gas that flows out of it may be a small part of the gas coming in, and you can increase the Btu value to considerably higher than the raw gas coming through the plant.

Q. What would you be doing with the other portion of the gas? If there is only a small part going out, where would the rest be going? A. I mean a small part flowing out to one outlet.

Q. Yes, you could produce a stream out of a plant which would have a Btu content higher than the Btu con-

tent of the total stream coming in, but that would not be possible with respect to a large volume such as flows out of any of these plants to an interstate pipe line? A. Yes, it would.

Q. Where? A. You could, for instance, increase the Btu content out of the Sherman plant going to Michigan-Wisconsin to a value higher than the gas coming into that plant by taking the liquid product from Hansford plant and enriching the gas to Michigan-Wisconsin.

* * *

[2157]

Cross-Examination by Mr. Sparks

Q. Mr. Bunn, I'd like you to look at Exhibit 59. I'd like to ask you if you know the month when the sales to El Paso were commenced from the Crane plant. A. I think it was July 1950.

[2158]

Q. I call your attention to Exhibit 59 and at the Crane plant for the months preceding July 1950, the volumes of gas flared were very substantially larger, were they not, than for those subsequent to July? A. The volumes flared were larger and the intake volumes were smaller.

Q. That is correct. For example, during the month of June the volumes processed at the Crane plant were 959,275 Mcf and the volume flared during the same month in the Crane plant was 633,353 Mcf, according to this exhibit? A. Yes.

Q. And during the next month of July the volume

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processed increased somewhat to 1,043,744 Mcf and the volumes flared was reduced to 398,756 Mcf? A. That is right.

Q. And during the month of August the volumes processed increased to 1,055,619 Mcf, and the volume flared was reduced to 32,244 Mcf? A. That is right.

Q. And then continuing on, as shown on this exhibit. In your direct testimony you stated that the flaring at the four plants in the Permian Basin, as is shown on Exhibit 59, will be improved some in the future. By being improved, I assume you mean being reduced in volumetric proportions to the

[2159]

volumes processed at the plants? A. That is right.

Q. How do you expect the proportion of the gas which has been flared in the past and during the year 1950, as shown on Exhibit 59, to be decreased in the future? A. Well, there are a number of influences that may be anticipated. It may be noted from Exhibit 59 that the flare at Eunice plant in proportion to the intake volume, which is the largest of any of the four plants for the year shown, is considerably lesser in percentage than for the other plants. That would indicate there that we have made marked improvement in that we did not always have that plant in that condition. We flared much greater volumes. We were able to effect useful outlets for the gas over a period of time, so that we reduced the flare down to almost the irreducible minimum, considering the variations of production on the leases from which the gas comes, as well

as the variations of outlet. In the case of the Goldsmith plant, we expect to increase the sales there to some of the present sales outlets. We expect producers to use more of the residue gas on their properties in connection with the production of oil and development of the properties, and we expect in time, if flaring continues at any inordinate degree, that the State Railroad Commission will limit the production of oil to force the permissible and allowable uses of the residue gas

[2160]

or the restriction of oil production, if that isn't done.

Q. Do you know of any efforts that the company has engaged in to attempt to remove the situations or alleviate the situations whereby there are these rather wide fluctuations in volumes of gas coming to the plant which necessitate some flaring? A. Yes. We have done considerable with the producers to encourage more even production of gas or the orderly staggering of production of oil and gas so that we can smooth out the flow of gas to our plants so that we may have a more uniform intake from hour to hour and day to day.

Q. Would you say that the principal cause of the flaring, aside from any breakdown in either our facilities or the facilities of the purchasers, was the uneven flow of gas to the plants as to volume resulting from the uneven production of oil by the producers on the leases? A. That is true here of all of these plants in general, except Crane plant, where in the case of Crane plant in the year shown on this Exhibit 59 there just wasn't any substantial outlets

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for residue gas at all until the El Paso purchase began in July.

* * *

[2166]

HENRY J. O'LEARY

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Honeck

Q. State your full name, please. A. Henry J. O'Leary.

Q. And your residence? A. Madison, Wisconsin.

Q. What is your occupation? A. I am chief of the Rate and Research Department of the Public Service Commission of Wisconsin.

* * *

[2172]

PRESIDING EXAMINER: That will be marked for identification as Exhibit No. 61.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED EXHIBIT NO. 61 FOR IDENTIFICATION.)

* * *

[2176]

Q. Can you tell us what those sources were?

* * *

[2178]

A. The actual figures for 1950 were taken from the report of the Michigan-Wisconsin Pipe Line Company to the

Federal Power Commission. The estimate for the year ending March 31, 1952, were taken from a study presented to the Public Service Commission of Wisconsin by Michigan-Wisconsin Pipe Line Company in connection with its filing of a proposed increase in rates before the Federal Power Commission.

* * *

[2181]

Q. You sponsor this exhibit as being true and correct, do you not? A. Yes, sir.

MR. HONECK: At this time the State of Wisconsin and the Public Service Commission of Wisconsin will offer into evidence column No. 1 of Exhibit 61 for identification, being a list of names of the customers.

PRESIDING EXAMINER: Is there any objection?

MR. SPARKS: No.

PRESIDING EXAMINER: That column alone doesn't mean much, it seems—

MR. HONECK: (Interrupting.) Well, I'll offer it.

PRESIDING EXAMINER: All right.

MR. HONECK: Is it received, your Honor?

PRESIDING EXAMINER: Yes, it will be received.

(COLUMN NO. 1 OF THE DOCUMENT REFERRED TO AS EXHIBIT NO. 61 WAS RECEIVED IN EVIDENCE.)

[2182]

MR. HONECK: Then the same parties will offer column No. 2.

PRESIDING EXAMINER: That will not be received. The ruling will be that that is irrelevant to the issues in this proceeding.

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MR. HONECK: We will offer column No. 3.

PRESIDING EXAMINER: Is there any objection?

MR. SPARKS: No.

MR. HONECK: That is the one headed "Mcf Purchased."

PRESIDING EXAMINER: Column No. 3, headed "Mcf Purchased", will be received.

(COLUMN NO. 3 OF THE DOCUMENT REFERRED TO AS EXHIBIT NO. 61 WAS RECEIVED IN EVIDENCE.)

MR. HONECK: We will offer column No. 4

PRESIDING EXAMINER: That column is considered irrelevant and will not be received.

MR. HONECK: The same parties will offer column No. 5 headed "Mcf Purchased Estimated Year Ending March 31, 1952".

PRESIDING EXAMINER: To make it short, columns 5, 6, 7 and 8, headed respectively "Mcf Purchased", "Revenue Present Rate", "Revenue Proposed Rate", and "Increase Under Proposed Rate", those four columns are considered irrelevant and will not be received in evidence.

MR. HONECK: Then at this time the State of Wisconsin and the Public Service Commission of Wisconsin desire to

[2183]

make an offer of proof of the columns which have just been ruled to be irrelevant, and we ask that they be made a part of the record under the rule.

PRESIDING EXAMINER: They will be so treated.

MR. HONECK: That is, in connection with the explanatory testimony that Mr. O'Leary has given.

PRESIDING EXAMINER: Yes.

The testimony of the witness, together with those portions of Exhibit No. 61, which have not been received will be transmitted by the reporter to the Secretary of the Commission, along with the documents which have been received and, of course, will become a part of the record of the proceedings to show what has been received and what has not been received.

BY MR. HONECK:

Q. Mr. O'Leary, are you familiar in a general way with the contract between Phillips and Michigan-Wisconsin Pipe Line Company, and its several amendments? A. Rather generally, yes, sir.

Q. Are you familiar with the escalator provisions thereof, in a general way? A. In a general way, yes, sir.

Q. Have you had occasion to make an approximate calculation of the percentage of the increase under the proposed rates which appears opposite the word "Grand Total"?

[2184]

That is the last figure on the right-hand side at the bottom of Exhibit 61. Have you had occasion to make an estimate of the percentage of that amount which will go to Phillips if the proposed increase is granted? A. I made such an estimate.

Q. What is the estimate?

MR. SPARKS: I object.

PRESIDING EXAMINER: The objection is sustained.

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MR. HONECK: I would like to make an offer of proof at this time, if your Honor please?

PRESIDING EXAMINER: All right.

BY MR. HONECK:

Q. Will you state what that percentage is? A. Roughly on the order of 20 per cent.

Q. In dollars and cents what is an approximate figure? A. Between 700 and 750 thousand.

MR. HONECK: That is all.

PRESIDING EXAMINER: Does Staff Counsel have any questions?

MR. McALLISTER: I have no questions.

PRESIDING EXAMINER: Counsel for the Respondent?

MR. SPARKS: In connection with the offer of proof there, may I ask this question?

BY MR. SPARKS:

Q. These figures you gave of 700 to 750 thousand was

[2185]

in reference to the grand total shown in the last column rather than with reference to the total which is as shown in the last column, is that right? A. That is correct, Mr. Sparks.

Q. What is the pressure base of these volume figures? A. I think it is 14.65, as I recall it.

Q. Where is that pressure base shown? A. Do you mean on the exhibit?

Q. If you have it there, I'd like to have you check it because the volume figure doesn't mean anything unless

you have a pressure base attached to it. A. 14.735.

* * *

[2221]

GEORGE P. BUNN

resumed the stand, and after having been duly sworn, was examined and testified further as follows:

Redirect Examination by Mr. McAllister

* * *

[2256]

Q. Would it be true that Exhibit 62 would be typical of all or a vast majority of the casing-head gas contracts covering gas purchases and processed through the Goldsmith Plant? A. In greater measure, I'd say it was typical, probably to the extent of some 80 per cent of the purchases there.

Q. How many different types of contract would there be covering the 100 per cent of the gas going into that plant? A. Well, even on this printed form from one producer to another, there will be differences, so that you could say probably there are as many kinds as you have purchase contracts.

Q. What I was really thinking of was the form. This form No. 5265 cht. A. I say that about probably around 80 per cent of the purchases at this point are on this basic form subject to such variations as are interlineated or added or written in.

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Q. Then the other 20 per cent would be covered by contracts prepared on how many additional kinds of contracts? A. I don't know offhand, but I would judge as many as

[2257]

maybe three or four basic forms.

Q. Where there are interlineations and changes, are those based upon bargaining between the parties, so to speak? A. Yes, in most instances that is the case.

Q. In other words, you might have, looking at page 2 or item 9, item 8, on this contract, the price in the first blank there is 2.0545, and on the next line there is a blank and it has 1.3399 cents, but now you might—do you have different figures and different prices under those circumstances applicable to gas purchased from adjoining leases? Would they be different? A. Not ordinarily, no, sir.

Q. Are they generally uniform in that given area? A. For a given plant we would ordinarily be the same in this series of contracts applicable on this form to that plant.

Q. Then the bargaining is for the first guy who sells, then, and the others have to fall in line more or less? A. As far as that particular blank is concerned, no, I wouldn't say that. The blank ordinarily is something that depends upon the general quality of the gas supplied to or anticipated for a plant.

[2258]

Q. We got to that question we were talking about last night and you told me you paid for gas flared. Now, on looking at this form, tell me where the element of gas flared

is brought into consideration here and in any way enters into the computation of price going to the seller of casinghead gas? A. In paragraph 2 of Exhibit 62, delivery date, it is provided that the delivery of the gas shall begin on the first day of the month of the execution of the contract, and that failure by buyer to accept delivery by said date shall obligate buyer to pay as full consideration for the volume thereafter produced and not taken by buyer.

Q. Go on down to column 3, paragraph 3. A. I beg pardon?

Q. Paragraph 3. Even though the total amount of gas that the seller measures into the system, nevertheless in the last analysis it is related to the volume sold, is it not, so that there is flared gas, there is no volume that is flared that could be included in that volume sold? A. That would depend upon the particular contract. We have contracts which provide that whether or not we take it or whether we have capacity for it, we still pay for all the gas produced.

Q. You said this is 80 per cent in that— A. (Interrupting.) I said the printed basic form was but each one of the printed basic forms may be interlineated

[2259]

and changed.

Q. There is no interlineation on this one we have been talking about which is Exhibit 62? A. Not with respect to that particular point that has just been mentioned, no, sir; but that does not mean that in other purchase contracts at this plant here aren't such adjustments in the printed form.

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Q. Would you say that that represented 80 per cent where you would pay for gas even if flared? Just to cut it short, as a matter of fact, I haven't been able to find any bill or contract yet, and I don't mean to say that I have seen any relative percentage of them, but I haven't seen any of them yet whereby formula or otherwise you take into consideration the volume of gas flared in determining the gas element in the price paid for gas purchased? A. I'll give you an example. At Crane plant we pay for gas produced by Gulf Oil Corporation and we didn't have any lines near it by several miles and we paid for a gas for a matter of 15 years and never got any of it, by contract.

Q. How much did you pay for it per Mcf? A. Exactly what we would have paid if we had taken it into the plant.

Q. That was your election to do it? A. No, it was a contract obligation.

Q. I mean a contract obligation. You could put a plant

[2260]

in there and processed it if you wanted to? A. That is right.

Q. What I'm talking about is where you take the gas into a plant and in the majority of the cases that portion that is flared is not included in the volume which the price is computed to the seller? A. All gas that we take into the plant we pay for, whatever it happens to be.

Q. Technically you pay for it. A. We absolutely do, technically or otherwise, we pay for it.

Q. You pay for it, but the amount per Mcf that you pay for the gas, the gas element in the price per Mcf, is based upon the volume that you sell and the volume that

is flared is not considered? A. I don't know whether I understand you or not.

Q. I'll go at it another way. The dollars you receive for gas sold— A. (Interrupting.) That we receive for gas sold?

Q. Yes, the dollars you receive for gas sold is the basic consideration which determines the price that he gets for the gas element in the gas purchased from lease, casinghead gas? A. In the usual case the price factor based upon our sales of gas from a given plant is determined from that which

[2261]

is sold from the plant.

Q. That is right, and the money which you receive is the money by which you determine the amount that he is to receive? A. That is right.

Q. So that in that computation the gas is flared, you get nothing for it— A. (Interrupting.) Now, which gas is flared?

Q. The gas that is flared out of the plant. A. The residue gas?

Q. The residue gas. A. That which we do not sell and do not use under circumstances where it is regarded as a sale by the terms of the contract and which is flared as a surplus would not enter into the price computation.

Q. So when you say— A. (Interrupting.) We are paying for all gas we buy.

Q. Well, my thinking is just a little different. What is flared represents no gain if a large portion is flared the

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price goes down per Mcf that the seller will receive? A. Where it is based on this type of purchase, yes, sir.

* * *

[2271]

Recross-Examination by Mr. Sparks

Q. Mr. Bunn, you testified, I believe, that the form which was used in entering into this contract which is Exhibit 62, was a form which had been used on some approximately 80 per cent of the contracts for the purchase of gas at the Goldsmith Plant? A. Yes.

Q. Is this same form used for the purchase of gas at the other three plants which we have been discussing in the Permian Basin, the Crane, Fullerton and Eunice Plants?

[2272]

A. Yes, in varying degrees.

Q. Do you know the approximate number of the contracts at the Eunice Plant which are on this form? A. I don't recall the number, but almost a hundred per cent of the contracts at that plant are on this basic printed form.

Q. Do you know the approximate proportion of the contracts for the purchase of gas at the Fullerton Plant which are on this form? A. They are about the same as at Goldsmith, about 80 per cent of them.

Q. And at Crane Plant? A. Around half of the contracts, I believe, there.

* * *

[2284]

Q. Incidentally, the references on Exhibit 63 to paragraph numbers and table numbers that are contained in

these column headings are to paragraphs and tables in the form of contract which is represented here by Exhibit 62, is that not correct? A. Yes. It may be noted from the serial heading of the form used on page 2 of Exhibit 63 that it is similar to that form number used for the contract. In other words, there are companion forms.

Q. Having calculated as shown on the statement here that the column 7 for this particular lease, there was 12,904 Mcf gas sold allocable to seller or this lease, then in column 8, there appears some decimal figures which amount to 4.92 plus cents daily weighted average price per Mcf, defined paragraph 8. I wish you'd look at paragraph 8 of the contract, Exhibit 62, and explain just generally the manner in which that weighted average price figure is derived in actual practice. A. That weighted average price is arrived at by averaging in proportion to the volumes sold, the several volumes sold, the prices received by Phillips for gas sold during the sale month for which the statement is made, whether that gas be residue gas or raw gas, and whether or not it be sold to a third party or under some circumstances used by seller himself, that is, by Phillips itself, in which case certain such uses are defined by the contract by paragraph 8 as sales and such

[2285]

uses as sales would be included in the determination of the weighted average price.

Q. Just so the record will be straight, I believe you referred to Phillips as the seller. In this contract, Exhibit 62, Phillips is referred to throughout the contract as buyer,

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isn't it? A. What I meant to say or to do there was to refer to Phillips as the seller of the residue gas or of raw gas which is used in the determination of the weighted average price, but Phillips, insofar as Exhibit 62 is concerned, is defined as the buyer of the raw gas from the producer involved in this case.

* * *

[2309]

MR. McALLISTER: I want to cut it down as much as I can and I don't want to waste time on preliminary questions and matters of simple little questions that don't run to the very heart of the offer.

MR. SPARKS: No, I'll not—as to these exhibits 18, 19, 20 and 21, I'll not raise any question with regard to the authenticity as it appears on the face of the exhibits.

MR. McALLISTER: The question is simply to the relevancy at this stage upon the issue we are trying.

MR. SPARKS: Do I understand you have offered all four of them?

MR. McALLISTER: I have offered all four of them and I want to be heard on my offer right now.

* * *

[2355]

That being the case, the ruling is that Exhibits 18, 19, 20 and 21, taken together as one are irrelevant to the issues in this hearing.

The ruling is further that Exhibits 19, 20 and 21, taken either together or separately are irrelevant to the issue in the proceeding.

MR. McALLISTER: Then I offer Exhibit 18 separately.

MR. SPARKS: The same objection. I don't believe I ever did state a formal objection. May it be considered that

[2356]

respondent has objected to each of the Exhibits 18, 19, 20 and 21 on the ground that they are irrelevant and immaterial to any issue in the case.

PRESIDING EXAMINER: Yes.

MR. McALLISTER: I think that is fairly clear on the record that you objected.

PRESIDING EXAMINER: I think so. I considered it that way at any rate.

As a matter of fact, by referring back to the record I see there is an objection pending to a question which was asked the witness and it has not been disposed of and neither has the question been answered. We then got into the question of the objections to these exhibits.

MR. McALLISTER: I'd like to have a ruling on my exhibit 18, Mr. Examiner.

PRESIDING EXAMINER: The objection to Exhibit 18 is overruled, and that Exhibit is received in evidence.

(THE DOCUMENT ABOVE REFERRED TO AS EXHIBIT NO. 18 WAS RECEIVED IN EVIDENCE.)

PRESIDING EXAMINER: It must be understood, of course, that any interrogation with respect to that exhibit must not involve the matter of rates, because obviously the matters might be gone into in oral testimony that were gone into in these other matters.

MR. HONECK: Mr. Examiner, the State of Wisconsin and

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[2357]

the Public Service Commission of Wisconsin at this time desire to make an offer of proof of Exhibits 19, 20, and 21, under the rule.

[2358]

PRESIDING EXAMINER: Exhibits 19, 20 and 21 will be marked by the reporter, excluded, offer of proof, exception and be filed by the reporter along with those exhibits which have been received in evidence with the Secretary of the Commission.

PRESIDING EXAMINER: I assume, of course, that the Wisconsin Commission is adopting these exhibits as his own when he makes this offer of proof.

MR. HONECK: That is correct.

PRESIDING EXAMINER: They were not originally his exhibits.

MR. HONECK: They are being adopted by Wisconsin and being offered by Wisconsin.

PRESIDING EXAMINER: The same ruling, of course. I mean the ruling will be the same with respect to the offer of Wisconsin.

* * *

[2421]

MR. HONECK: At this time, Your Honor, I would like to complete the record as far as I can by the offer of Exhibit 60, because counsel for the Public Service Commission and I are going to trade this over the week end. He'll be here next week, and I want to be in position to brief him on

what has transpired up to date so he can pick up from here on Monday, and I would like at this time to offer Exhibit 60.

MR. SPARKS: May the objections which we have already made to that Exhibit be considered in connection with the offer?

PRESIDING EXAMINER: Yes, they may.

MR. SPARKS: I'll restate it to the extent of stating our objection as to the relevancy and materiality of the exhibit with the sole exception of the gas purchase contract, as to which we do not object. We do object to the exhibit as a whole.

* * *

[2422]

PRESIDING EXAMINER: The objection is overruled. Exhibit No. 60 is received in evidence.

* * *

[2466]

C. O. STARK

resumed the stand, and having been previously sworn, testified further as follows:

[2470]

Examination by Mr. Torkelson

Q. Mr. Stark, I'll show you the documents which have been marked for identification as Exhibit 68, 69, 70, 71 and 72. Will you please examine them? Have you examined those documents? A. Yes.

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[2471]

Q. Are those documents from your files in the office of Phillips Petroleum Company? A. Yes.

* * *

Q. Are these documents which we have just referred to the so-called economic study on which you relied when you signed this contract which is in evidence as Exhibit No. 60? A. Yes.

* * *

[2726]

PRESIDING EXAMINER: Exhibit No. 79 is received in evidence.

(THE DOCUMENT ABOVE REFERRED TO AS EXHIBIT NO. 79 WAS RECEIVED IN EVIDENCE.)

MR. TORKELSON: We now would like to call Mr. K. E. Beall. Whereupon,

K. E. BEALL

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Torkelson

Q. Your name is K. S. Beall? A. K. E.

Q. You are an employee of Phillips Petroleum Company? A. Yes, sir.

[2727]

Q. Where do you live? A. Bartlesville.

Q. What position do you occupy with Phillips Petroleum Company? A. Vice-president of the economics department.

* * *

[2729]

Q. Did Mr. Learned ask you to make the economic studies which have been identified as Exhibits 69, 70, 71 and 72? A. Yes, sir.

* * *

[2732]

MR. TORKELSON: Mr. Examiner, I feel that these documents speak pretty much for themselves and I offer at this time in evidence, Exhibits 68, 69, 70, 71 and 72. I will, your Honor, retain them in my possession for the purpose of having copies made, as we have indicated, and then I will return the documents that have been furnished to me by Mr. Sparks to Mr. Sparks by registered mail or by messenger.

* * *

[2733]

Examination by Mr. McAllister

Q. You referred to Mr. Learned and stated, I believe, Mr. Beall, that it was he who instructed you to prepare these first of these economic studies, is that right? A. Yes, sir.

Q. In what capacity did he make that request? A. He was assistant to Mr. Endacott, the Executive Vice-president.

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Q. Did he hold any position on the Executive Committee? A. I believe not at that time. He was the Chairman of the Operating Committee at that time.

Q. He was Chairman of the Operating Committee? A. That is right.

Q. Is Mr. Endacott also a member of the Operating

[2734]

Committee? A. No, Mr. Endacott was a member of the Executive Committee at that time.

Q. So Mr. Learned in making the request was acting as, you might say, Chairman of the Operating Committee and assistant to Mr. Endacott and it was normal and natural for him to ask you to make a report of this kind to Mr. Endacott? A. Yes, sir.

Q. Does that more or less follow the pattern of studies that you make otherwise when Mr. Learned comes to you and says I'd like to have a report on so and so, an economic study, for Mr. Endacott? A. Yes, sir, it happens frequently.

Q. I believe you stated Mr. Endacott was at that time Executive Vice-president and is now President of Phillips Petroleum Company? A. Yes, sir.

Q. What position does Mr. Learned hold in the organization? A. He is the Executive Vice-president.

Q. He succeeded Mr. Endacott as Executive Vice-president? A. Yes, sir.

* * *

[2737]

PRESIDING EXAMINER: Are there any other questions of the witness at this time?

MR. SPARKS: Not at this time. I'd like to state my objection.

PRESIDING EXAMINER: All right.

MR. SPARKS: To Exhibits 68, 69, 70, 71 and 72. I object to all of the exhibits as a group and separately as to each of them on the ground that they are immaterial and irrelevant to any issue in this proceeding.

* * *

[2742]

PRESIDING EXAMINER: The question is just how far we are going into the details underlying and behind the entering into of the contract.

* * *

[2747]

PRESIDING EXAMINER: You have the contract in the record, the only question is how far we are going now into the investigation and study of the background of this contract, that is all?

* * *

[2752]

MR. TORKELSON: So far as having any ruling turn on how far we can go into inquiring into these things, I do think that it is of importance to show that this is an unusual transaction and we are not going into every one well farm-out or anything like that.

PRESIDING EXAMINER: You understand, of course, that a line has to be drawn somewhere.

* * *

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[2759]

PRESIDING EXAMINER: The objections, therefore, to Exhibits 68, 69, 70, 71 and 72 are sustained.

MR. TORKELSON: May I, Mr. Examiner, make an offer of proof with respect to each of the exhibits?

PRESIDING EXAMINER: Yes, you may.

[2760]

MR. TORKELSON: I ask that the documents marked for identification as Exhibits 68, 69, 70, 71 and 72, stand in the record as and for our offer of proof with respect thereto.

PRESIDING EXAMINER: They will be so construed.

The exhibits will be marked by the reporter, excluded, offer of proof, exception, and be filed with the Secretary of the Commission along with those exhibits which have been received in evidence.

* * *

[2812]

MR. SPARKS: Yes, that is fine.

I offer Exhibit 81 in evidence.

MR. McALLISTER: I stated my objection, Mr. Examiner.

PRESIDING EXAMINER: The objection is sustained to Exhibit 81.

MR. SPARKS: As tender of proof the witness, if permitted to testify, would testify that the wells, numbers of wells, shown on the exhibit taken from the books and records of the company kept in the ordinary course of business, that the witness made classification on the exhibit

which are "Drilled for new fields" and "Drilled for extensions of producing fields" and "Drilled for new producing zones in producing fields" by an examination of the maps of the company to determine under which of the categories each of the wells should fall, and that the witness perpared it, calculated it, figures appearing under the heading per cent on the right-hand side of the exhibit.

I believe that is all.

* * *

[2813]

GEORGE P. BUNN

resumed the stand, and having been previously sworn, testified further as follows:

Direct Examination

* * *

[2819]

MR. SPARKS: Mr. Examiner, I would now like to have identified as Exhibit 82 a map of the State of Oklahoma and a portion of the states of Texas, New Mexico, Colorado, Kansas, Missouri, Arkansas and Louisiana and it is sheet 1 of Kelly's Map of the United States.

PRESIDING EXAMINER: That will be marked for identification as Exhibit No. 82.

* * *

[2923]

BY MR. SPARKS:

Q. Mr. Bunn, this form, in paragraph A has a number

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of blanks, and I am speaking of Exhibit 89, the casing-head gas division order. Are those blanks ordinarily filled in in the same manner that the comparable blanks are filled in in paragraph 8 of the casing-head gas contract which is Exhibit 62? A. Yes.

Q. I notice that the division order also has another place for signature at the bottom of the page under which is listed owner. Who signs there? A. The same people who are to receive interest under this agreement.

Q. And then there is a place for signature by Phillips Petroleum Company? A. Yes.

[2924]

Q. Mr. Bunn, aside from variations from plant to plant due to the manner in which the blanks are filled in or some other special variation, and as far as the form is concerned, is the basis of payment under the, provided for under the, casing-head gas division order the same as that under the casing-head gas contract to casing-head producers from whom gas is purchased? A. Yes, with the same possible minor variations from agreement to agreement.

Q. If the statement which is Exhibit 63 in this record with a statement covering a royalty interest at the Goldsmith plant, in other words, a statement covering the Phillips lease at the Goldsmith plant, instead of a Stanolind lease and an accounting was to be made to the royalty owners, under this division order, Exhibit 89, the same method of accounting would be followed, would it not, in the statement as to the factors involved and would operate in the same manner? A. Yes, the same method of accounting

would be pursued on the same forms as is indicated in Exhibit 63.

Q. Just so it is clear, Exhibit 63 shows quite a number of small interest owners, does it not? A. On page 3 of Exhibit 63, yes, there are quite a number of owners indicated there, many of whom have small interests.

Q. And they are royalty owners, are they not? Can you tell by examination of the interest there that they are royalty owners?

[2925]

MR. McALLISTER: It might be property owners, too, would it not?

MR. SPARKS: Royalties are property, Mr. McAllister.

MR. McALLISTER: I know, there might be something down in the bottom of the hole, but the other fellow owns the surface.

THE WITNESS: I don't know about every one of them, but I do know that a number of them are royalty owners.

BY MR. SPARKS:

Q. If you added up the interest accredited to Stanolind and the interest accredited to Atlantic, the two signors of the sales contract which is Exhibit 62, would you get 7/8 interest? A. Yes, you get 87-1/2 per cent by adding the decimal ownership there.

Q. From that would you deduce the balance of them were royalty owners? A. Yes; that would be a very good indication in that the whole adds up to one or to a hundred per cent and the other 1/8 is ordinarily typical royalty.

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Q. Assuming that these are royalty owners for the purpose of the question, does Phillips Petroleum Company have assigned any instruments similar to Exhibit 89 with these royalty owners? A. Oh, yes. Where we have division orders as on form 89 on other leases.

Q. Assigned with royalty owners under the Stanolind lease?

[2926]

A. There may be some of the same people, but for leases that Phillips Petroleum Company rather than Stanolind's.

Q. I am speaking of them as royalty owners under the Stanolind lease. Would you have such a division order signed covering the Stanolind lease? A. No, sir.

* * *

[2935]

Q. Mr. Bunn, was Exhibit 91 prepared under your supervision and direction? A. Yes. This map was prepared as I directed from the various records of the company from which we could prepare the various kinds of data shown hereon

* * *

[2939]

Q. If you were writing about that line which forms a T right above section 30, immediately south of what you

[2940]

described as Section 19, how would you describe that line? A. Well, ordinarily—

Q. (Interrupting.) I mean not ordinarily, but right now from this map, which would give us sufficient designation that we'd know what it was. A. Well, what I would do right now would not be what we'd do ordinarily, but I'll tell you what we'd do now if we were to do that. We would speak of the gathering line running north and south about a quarter of a mile west of the north and south section line along the east side of Section 30 in Block 44, Township 1, south, Texas, and Pacific Railway.

* * *

[2949]

Q. What is the black and yellow? A. That is the line to which we referred yesterday on another map as the Mextex line, which was the natural gasoline production line running out of the Permian Basin to near Borger.

Q. To Borger? A. To near Borger.

Q. Why do you say near? A. because it isn't at the town. It is more nearly the town of Phillips, Texas, which is northwest of Borger a few miles, but it isn't in the town of Phillips, it is near that.

Q. Where does it go actually? A. That is where it ends.

Q. Does it run out into a lake or something? A. No, it goes to a plant owned by Phillips at that point, which we call Borger fractionator.

Q. And that is where it is converted into butane, propane or other products which might be made out of natural gasoline? A. Yes, sir.

[2950]

MR. McALLISTER: Thank you, Mr. Sparks. I didn't mean to interrupt, but I mean sometimes—

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MR. SPARKS: (Interrupting.) That's all right, I was going to ask that question anyway.

BY MR. SPARKS:

Q. And the red solid lines on the map— A. (Interrupting.) The red what?

Q. The solid red lines on the map, what are they? A. The solid red lines are gas gathering lines that are in and operating.

* * *

[2999]

Q. Mr. Bunn, do you have copies of Exhibits 99, 100, 101, and 102? A. Yes, sir.

Q. Will you please examine them and state whether or not they are aerial photographs taken of the plants which

[3000]

appear by name on each of the photographs? A. Yes, sir, these are all aerial photographs which we had made to show these four plants and their immediate environs.

Q. What was the approximate date when these photographs were taken? A. I don't recall the exact date, but it was sometime last summer; it seems to me it was about July or August of last year.

MR. McALLISTER: On Exhibit 102, it says "proposed delivery point to El Paso". Is that an actuality?

THE WITNESS: That is the actual delivery point, yes, sir.

* * *

[3049]

MR. SPARKS: Mr. Examiner, we request that a tabulation marked "Percentage of Gas Supplied by Gulf Oil

Corporation Based on Volumes for March, 1951", be marked as Exhibit 95-A. That was the information which we were to supply with regard to that.

PRESIDING EXAMINER: It will be so marked.

* * *

[3050]

MR. SPARKS: Mr. Bunn, were Exhibits 95-A and 96-A prepared under your supervision and direction? A. Yes, sir.

* * *

[3051]

MR. SPARKS: We request that a map which is entitled "Panhandle and South Part of Hugoton Field" be marked for identification as Exhibit No. 103.

PRESIDING EXAMINER. It will be so marked.

* * *

[3052]

BY MR. SPARKS:

Q. Mr. Bunn, was the map of the Panhandle field and the south part of the Hugoton field, which is Exhibit 103, prepared under your supervision and directions? A. Yes, sir.

* * *

[3055]

BY MR. SPARKS:

Q. Mr. Bunn, the basic information with regard to the lines, Phillips lines, which appear on this map, were the same basic maps and information from which certain maps

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were prepared which have been furnished to the Staff and used by the Staff in this proceeding and have been brought up to date by the Staff in this proceeding, isn't that correct? A. Yes, sir; I understand that the same information was supplied the Staff from which the lines on this map were made.

Q. And an attempt has been made to see that the lines as brought up to date and checked for this map were the same as those which have been furnished to the Staff? A. We attempted to furnish the Staff with the same information from the same sources as this map was brought up to date from.

Q. That is, insofar as, of course, the maps of the Staff contain and reflect the same type of information as shown on this map?

[3056]

A. Yes; to the extent that they desired it they have had the availability of the same information.

Q. What area is covered by the map? A. Well, the map covers a portion of the Panhandle of Texas and a portion of the Panhandle of the State of Oklahoma, and covers quite a number of counties which are shown on the map in the two states combined and shows by the outlines on the map the major portion of the Panhandle field and about the southern one fourth of the Hugoton field. The map describes the portions of the total Panhandle field which is shown on the map by the labels in green in large letters "West Panhandle field" and "East Panhandle field", which are subdivisions of the greater Panhandle field made by

the Railroad Commission of Texas. The portions of the Hugoton field which extends through part of Texas, the Panhandle of Oklahoma and into a part of Kansas is labeled on the map insofar as that part of it is shown as "South Hugoton field" in green letters, including the portion of the Hugoton field which is in Texas and a portion of the Hugoton field which lies in Oklahoma.

Q. The word "South" that is used in connection with Hugoton on the map, is that used to indicate that there was a south Hugoton field as a field distinguished from the Hugoton field as a whole or merely to show that that was the southern portion? A. That is merely to show that geographically this is

[3057]

the southern portion of the Hugoton field.

Q. And you stated the map doesn't show about the north three fourths of the Hugoton field. Does Phillips own any substantial number of leases in that part of the Hugoton field? A. In the part of the Hugoton field which is not shown on this map, that is, the remaining approximately three fourths Phillips has very few leases.

[3058]

Q. I notice a dash line running generally in a north and south direction to the right of which there is the language in green letters, "East Panhandle Field", and to the left of which is "West Panhandle Field". Is that dashed line to represent the division between those two fields as they have been described and defined by the Railroad Com-

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mission for proration purposes? A. Yes. That heavy black dashed line is the description or is the location of the latest description of the Railroad Commission as to the boundary between those two portions of the Panhandle Field.

Q. And near the center of the map between the West Panhandle Field and the South Hugoton Field there is also a dashed line, what does that represent? It is a heavy dashed line? A. The heavy dashed line from the point of intersection of the northeast corner of Hutchinson County, the northwest corner of Hutchinson County, and the northeast corner of Moore County and running generally southwest from that point is the location of the division between the Hugoton Field and the Panhandle Field as prescribed by the Railroad Commission of Texas.

* * *

[3094]

MR. SPARKS: The two symbols as shown on this map are a division of the part interest leases, that is, leases under which Phillips owns a part interest and someone else owns a part interest in the two different categories, one of them being leases in which Phillips owns a portion of the oil and gas rights, that is, under the lease, the other being a situation where Phillips owns all of the gas rights but none of the oil rights.

Q. That is a correct statement, is it not, Mr. Bunn? A. No, the last statement, I believe, should be reversed, in which Phillips owns many oil rights and not the gas rights.

Q. Did I say it the other way?

[3095]

A. Yes. All acreage colored with two colors is correctly colored as far as I have checked it in that Phillips has part interest in all such properties. In the case of the two colored properties with the circle shown on Exhibit 104, the interest in such cases which Phillips has is applied to the oil and casing-head gas only, in which case it owns all of those rights under such properties and none of the rights in wells which produce dry gas only, and it has contracts for the purchase of the dry gas rights in those cases and in the other cases without the circle contracts for the purchase of any gas.

Q. When you said contract for purchase of dry gas rights, you mean the purchase of gas produced dry gas? A. Yes.

MR. McALLISTER: One other point I'd like to clear up there. You show here a red line, a gas gathering line, and then you show residue lines. Is that merely descriptive terminology that you have used on here and you don't undertake by including that description on the map to differentiate between a residue line and a natural gas line if somebody wants to call it a natural gas line, do you?

THE WITNESS: They could call it anything they want, that is right. The residue line as depicted here, it is depicted as such merely for convenience of distinction of the kind of gas moved through the lines. Some are called residue lines and

[3096]

they are labeled that way for convenience.

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MR. McALLISTER: And on the gathering lines you merely mean the lines that lead to the vicinity of the leases and which connect with lines from the leases to the gasoline plants?

THE WITNESS: Well, the gathering lines are the lines which take part in the gathering of the gas from the wells and leases.

* * *

[3109]

Q. Mr. Bunn, is Exhibit No. 105 a photostatic copy of a casing-head gas contract between Champlin Refining Company and Danciger Oil & Refining Company as sellers and Phillips Petroleum Company as buyer, which is one of the casing-head gas contracts you have with producers of casing-head gas in the area covered by the Exhibit 104? A. Yes, sir.

MR. SPARKS: I assume, Mr. McAllister I don't need to read through—

MR. McALLISTER: (Interrupting.) No, not at all.

BY MR. SPARKS:

Q. Is this contract on a form which is generally representative of the other contracts under which you purchase casing-head gas for processing in the plants that are shown on Exhibit No. 104? A. Yes. This is a typical basic printed form of contract used in that area.

Q. You testified about Exhibit 62, which was basic form of contract under which Phillips purchased casing-head gas in the Permian Basin, did you not?

[3110]

A. I don't recall the exhibit number, but I did, yes, testify concerning a typical basic printed form contract for that area.

Q. This is a slightly different form? A. Yes, sir; it is not quite the same in its provisions with the other contract.

Q. Both of them, however, do include provisions for the return of residue gas for lease operations, do they not? A. Yes, sir.

Q. And each of them also includes a payment to be made, the amount of which is dependent on the gasoline content of the gas and the current price of 26-70 natural gasoline or crude oil? A. Would you read that question, please? (The question was read by the reporter.) A. The payment is dependent on that in part, yes.

BY MR. SPARKS:

Q. In part. And each of them also contains payment provisions under which payment in part is determined by the price received for residue gas which may be sold by Phillips? A. Yes. The price received by Phillips as defined in the contract.

Q. As defined in the contract? A. Yes.

Q. Exhibit No. 106, is that a statement, monthly statement

[3111]

for the month of March, which was made to the sellers of the gas under the contract which is Exhibit 105? A. It is the statement from which statements to the sellers of gas are prepared.

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Q. This is what we call a master copy? A. That is right, the first page is and the second page is the listing of all interests which are paid, but statements that go to those interests carry only the information shown on the second page and the particular interest of the owner involved and the amount of money he receives.

* * *

[3140]

Q. Mr. Bunn, do you know approximately what per cent of the royalty owners who own dry gas royalties or gas well gas royalties under Phillips leases in the Panhandle and South Hugoton Fields have executed whichever of these Exhibits 109, 109A and 109B is applicable to his area?

* * *

THE WITNESS: We made an intensive campaign to get these

[3141]

forms executed in the areas mentioned and succeeded in getting something around 90 per cent of all of the leases covered by these agreements on applicable properties.

* * *

[3146]

Q. Does the map show the raw gas gathering lines beginning in the Hartley County in red? A. Yes. Gas gathering lines in general on the exhibit are shown in red.

Q. Is the area which is shown on this map often called the Borger area? A. Yes. This comprises in its general scope the area we refer to as the Borger area in our operations.

Q. Is it sometimes referred to, at least in the gathering lines, the system of the gathering lines referred to, as the

[3147]

Moore County gathering system? A. Yes, we use that term quite frequently.

* * *

[3208]

Q. Turn to Exhibit 117. I call your attention to the point marked on that exhibit as delivery point to Michigan-Wisconsin. Do you find that? A. Yes.

Q. Is the point that is so marked on Exhibit 117 the outlet of the bank of six meters which are shown on the flow sheet which is Exhibit 45-A? A. Yes, that is correct. I wasn't sure. You can't tell from the photograph, and I'm checking the contract here. The point is at the outlet of the meter station.

Q. Does Phillips own and operate those meters? A. Yes.

Q. And the facilities of Michigan-Wisconsin for receipt of the gas connect at the outlet of the meter station? A. That is right.

* * *

[3257]

Q. Mr. Bunn, you have been connected with the natural gasoline industry, I believe, since 1923, is that correct? A. No, since about 1916.

Q. And since 1923 you have been in the employ of Phillips Petroleum Company in a managerial position? A. Since 1921 I have been with the Phillips Petroleum Company.

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Q. And during that time, during your connection with the industry and particularly since your connection with the Phillips Petroleum Company, have you been acquainted with and do you have knowledge of the terminology which is used in the industry with reference to various facilities that constituted the facilities used in the operations of the natural gas and gasoline industry? A. I think I do, generally, yes, sir.

Q. As it is considered in the industry, from your knowledge of the operations of the industry, and Phillips Petroleum Company's operations in the industry, what are the functions that are ordinarily performed by a gatherer of natural gas? A. Well, in our operations we have from the beginning considered our operations as being those of gathering gas, and those operations which we have historically engaged in predominately have been in connection with our various plant

[3258]

installations whether they be handling casing-head gas or gas from wells producing gas only or gas from a combination of the two of which we have considered ourselves gatherers of gas in the collecting of the gas from the wells or leases in the qualifying or conditioning of the gas and conveying it to one or more points of disposal in or near the area where the gas is produced.

Q. Do you consider that the conditioning of the gas for disposal, both in the fractions that are disposed of in liquid and in gaseous form are a part of the functions of a gatherer? A. Yes. Historically the producer of casing-

head gas in this industry collected the gas on his own lease or from several of his own leases and he himself was predominantly the operator of a gasoline plant where such was installed and he collected the gas and processed it and conveyed it to points of disposal. His purpose was to do that. He found it desirable and economical to collect the gas from various wells, leading in various leases, to a common point or points of disposal so that the gas in the total quantity available from all sources was collected together at some one or more such points for the disposal necessary. He regarded the extraction of gasoline as a part of disposal and in cases where he sold the residue gas or where he utilized it even because of the hazard involved in directly using the richer casing-head gases for fuel, he

[3259]

considered the extraction facilities as partly qualifying or conditioning facilities in connection with his total operation of gathering in order to make the gas saleable or safe for use.

Q. When you were first employed by Phillips Petroleum Company was it then engaged in the business of collecting gas and processing it in gasoline plants and disposing of the residue gas? A. Yes, sir.

Q. And has it been engaged in that business in numerous plants and numerous situations since that time? A. It has been so engaged and all of its plants since that time. In the beginning, when I joined the company, we had three plants, and the residue gas from all of those plants was predominantly utilized or sold and it was the aim of the

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company and it was our definite intentions as a department as we saw the opportunity to broaden our operations and to become a collector, a gatherer, of gas for the fullest and most economic utilization and disposal that we could, wherever we could find such opportunity where gas was not so fully being utilized, either from the wells or even through existing plant and gathering facilities as we might find them.

Q. Now I wish you'd turn to Exhibit No. 86, Mr. Bunn. That is the map of the West Texas area. Does the term "Gathering lines" have a well defined and understood meaning in the natural gas and gasoline industry?

[3260]

A. Will you read that question, please? (The question was read by the reporter.) A. Yes, I think a very definite meaning in the industry.

Q. Has it had such a meaning since you first became connected with the industry and were first employed by Phillips Petroleum Company? A. Yes, sir.

Q. On this map, Exhibit 86, you observe the Crane plant, which is in the lower right-hand corner. That plant was constructed in what year? A. 1929.

Q. Has there been any substantial change in the red lines which are denominated gas gathering lines on this map, Exhibit 86, at the Crane plant since it was first constructed? A. Well, shortly after it was constructed we had to learn how to use, how to handle, how sulphide bearing gas. Until we learned that we lost quite a number of lines there by corrosion and they had to be replaced, in

the early years of the plant. Those lines, however, were replaced substantially in the same location as the lines which had to be removed, and the system as shown here in red other than that has not been substantially changed except for extensions. I mean by substantially changed that more of the original system is depicted in the lines shown than anything which has been added or changed since.

[3261]

Q. As the term "Gathering line" has been known in the natural gas and gasoline industry since your connection with it, are the red lines which are denominated gathering lines on this map and which collect gas which is processed in the Crane plant gathering lines within the meaning of that term as it is used and understood in the natural gas and gasoline industry? A. Oh, yes. Yes, sir. Historically I have never heard any other term used for those lines in general. They have always been called gathering lines. Sometimes they may be referred to simply as pipe lines or raw gas lines occasionally for distinction as among the many terms of equipment around the plant, but they have always been regarded and talked of as gathering lines.

Q. The map also shows in red and marked on the map as gas gathering lines through which gas is collected for processing at the Goldsmith, Fullerton, Eunice, Hobbs, Lee, Seminole and Judkins plants? A. Yes. Those lines shown in bright red on the map are similarly gathering lines for each of those respective plants.

Q. And within the meaning of that term as it is known and understood in the industry are they gathering lines? A. Yes.

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Q. And does that include the larger lines as they lead into the plant as well as the smaller lines? A. Why, certainly. The purpose of gathering is to get the gas to one or more points of disposal. You don't gather

[3262]

out on the prairie or in the middle of a lake some place and then just stop. You get to the point of disposal. All of those lines, the larger ones which are larger only because they carry more gas, are gathering lines along with the smaller ones.

Q. Did you ever hear anybody refer to those lines that are marked gathering lines on this exhibit as transmission lines? A. No, not in the sense that we understand transmission in the general sense. They are always called gathering lines.

Q. Now I wish you'd turn to Exhibit 104. Exhibit 104 also has on it some red lines which are denominated "Gas gathering lines" on the exhibit? A. Yes.

Q. Are those red lines gathering lines within the meaning of that term as it has been and is known and understood in the natural gas and gasoline industry? A. Yes, sir; and in addition those other lines which I stated this morning are actually installed in some parts of this field and not shown on the map for the collection of most of the casing-head gas.

Q. They are the lines that go to the casing head, is that what you are speaking of? A. Yes.

Q. Which are not depicted on the map? A. That is right.

Q. Now if you will look at Exhibit 111, you will see that

[3263]

it also reflects a large number of lines in red which are denominated on the map "gas gathering lines"? A. Yes.

Q. Within the meaning of gathering lines as that term is generally known and understood in the industry and has been known and understood in the industry for many years, are those red lines gathering lines, that is, the red lines on the map, Exhibit 111? A. Yes, sir, those are all gathering lines.

Q. Does that include the larger 24-inch lines as well as the smaller 4, 6 or 8 or 10-inch lines which lead to the wells? A. Yes, sir. There are not quite so many operators perhaps who have quite so extensive a system as shown on the exhibit, and they might not have as many of the larger sized lines as may be here, but the system and its purposes are identical with those elsewhere in the industry and would be classified as gathering lines.

Q. Now I call your attention to Exhibit No. 116. On that exhibit there appear some pink lines and some black lines, all three of which are designated on the exhibit as gathering lines, and I will ask you whether or not, as the term gathering lines is known and understood and has been known and understood in the industry, those lines so designated on the map, Exhibit 116, are gathering lines?

[3264]

A. Yes, sir, all those lines, whether solid or dotted, pink or black, when installed and serving in a system like this, would be called gathering lines, would be so considered by the industry.

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MR. SPARKS: I believe that is all.

One moment.

BY MR. SPARKS:

Q. I wish you would turn to Exhibits 12, 13, 14 and 15. Looking first at Exhibit 12, to the extent that the lines are shown through which gas is collected which is processed in the Sherman plant are the pipe lines which are shown on this Exhibit 12 gathering lines within the meaning of that term as it is and has been for many years known and understood in the natural gas and gasoline industry? A. Yes. I say that without having examined every feature of the map but recognizing from the title and the pattern of the lines here as representative of those lines supplying Sherman plant, I'd say those are gathering lines, would be so construed by the industry.

Q. The testimony in the record is that territory lines are not reflected on Exhibit 12, and it has been revised and the revised Exhibit 12 as Exhibit 12-A will be inserted in the record, but has not been done so as yet, as I understand it. Now I call your attention to Exhibit 13 and ask you to state whether or not the lines on that exhibit are gathering lines

[3265]

within the meaning of that term as it is known and as understood in the industry? A. As I recall how we have directed the installation of this system depicted here up to the latest moment, it does not quite correctly reflect the exact system, but if the connections with all as shown on this map, and most of it, I believe, is correct, all of those lines would be identified as gathering lines.

Q. And would be so considered in the natural gas and gasoline industry? A. Yes, that is right, all of them except the line here labeled Pepl Co. which may or may not be a gathering line.

Q. You mean the heavy dashed line? A. Yes.

Q. I call your attention to Exhibit 14 and ask you whether or not the solid black lines on that exhibit would not be considered gathering lines within the meaning of that term as it is ordinarily known and understood in the industry and in connection therewith and state to you that the testimony in this record is that said solid black lines are a bulk of the Phillips pipe line system in the areas shown by the map and that there is an understanding between counsel that certain minor additions and corrections will be added to Exhibit 14 and inserted in the record as Exhibit 14-A. A. Without again examining the map in complete detail

[3266]

and having some difficulty orienting myself for reason of the lack of geographic descriptions, sections and so on, I believe all the solid lines shown on here would be called gathering lines.

Q. I ask you if the same would be true with regard to the solid lines on Exhibit 15? A. Yes, in general again, looking at this exhibit, I believe that from a hasty examination all the lines shown thereon would be gathering lines.

Q. I call your attention now to Exhibit 48. Do you observe that exhibit? A. Yes.

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Q. Are the lines shown on that exhibit gathering lines within the meaning of that term as it is known and has been known for many years in the natural gas and gasoline industry? A. Did you finish your question?

Q. Yes. A. I'm not sure about it. Will you read it, please.

PRESIDING EXAMINER: Read the question. (The question was read by the reporter.) A. Yes. Without regard as to whether all the lines are shown or they are all shown exactly correctly, the system depicted hereon as the system which supplies Eunice plant gas would be called gathering lines.

Q. Would you look at Exhibit 49, which is a diagram of pipe line facilities at the Fullerton plant, and state whether

[3267]

or not the solid lines thereon, which are, according to the record in this case, the lines of Phillips Petroleum Company through which gas is supplied to the Fullerton plant, and state whether or not those are gathering lines as that term is known and understood in the industry? A. Yes, sir, those would be gathering lines.

Q. Turn to Exhibit No. 50 and state whether or not the same is true of the solid black lines on that map, which purport to be the lines through which gas is collected and processed at the Goldsmith plant? A. Yes. Again, without reference to the correctness of them, but represented as the lines through which gas is supplied to Goldsmith plant, these would all be gathering lines, and they would be so construed by the industry.

Q. I notice that one of the lines coming from the north, which appears to be marked "D", is a 26-inch line as it is shown on Exhibit 50. Do you find that line? A. Yes.

Q. Would that be a gathering line within the meaning of that term as it is known and understood in the industry? A. Yes, sir.

Q. There is another one from the south that is marked a 16-inch line. Would that be a gathering line? A. Yes, sir.

Q. And another one marked a 20-inch line. Would that be

[3268]

a gathering line? A. Yes, sir.

Q. Is the size of a line as it enters the plant yard in any way determinative of whether it is considered a gathering line in the industry? A. No, sir.

Q. Please turn to Exhibit No. 51. This exhibit purports to reflect the lines of Phillips Petroleum Company, that is, the solid lines on the exhibit purport to reflect the lines of Phillips Petroleum Company, through which gas is collected and from which gas is processed at the Crane plant. Are the lines shown on that exhibit gathering lines within the meaning of that term as it is ordinarily known and understood in the industry? A. The solid lines shown hereon, depicted to indicate the lines through which gas is supplied to Crane plant would be so regarded in the industry as gathering lines.

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United States Court of Appeals

FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11240

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

FILED SEP 29 1952

No. 11241

CITY OF DETROIT, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

CLERK

No. 11242

CITY OF KANSAS CITY, MISSOURI, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11245

CITY OF MILWAUKEE, WISCONSIN, a Municipal Corporation, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11252

COUNTY OF WAYNE, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

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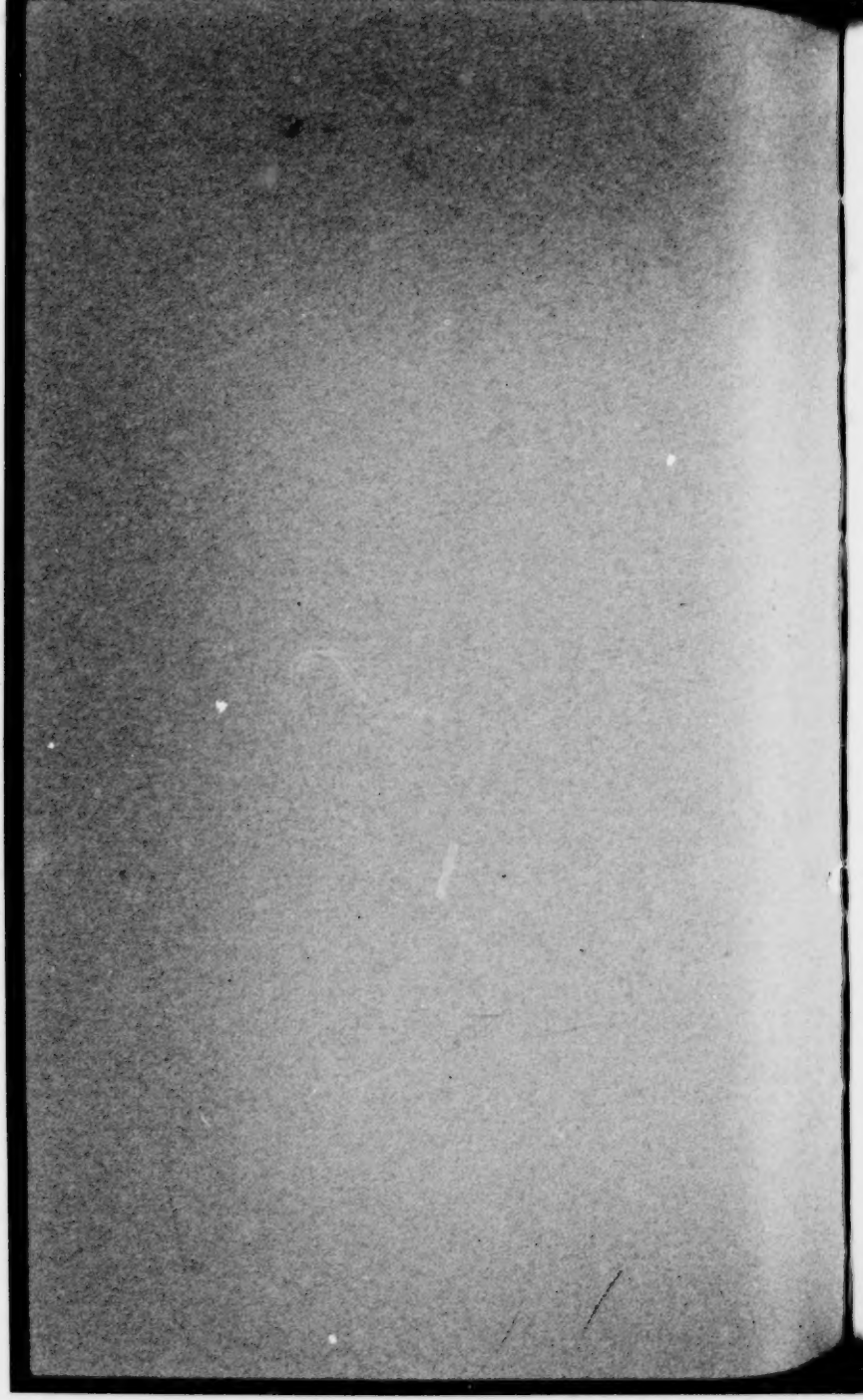

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Volume II

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VOLUME II JOINT APPENDIX

United States Court of Appeals

FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11247

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11241

CITY OF DETROIT, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11242

CITY OF KANSAS CITY, MISSOURI, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11245

CITY OF MILWAUKEE, WISCONSIN, a Municipal Corporation, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11252

COUNTY OF WAYNE, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

Review of An Order of the Federal Power Commission

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Testimony—Record Pages 3502-5799

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[3502]

JACK K. BAUMEL

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Crenshaw

Q. Please state your name. A. Jack K. Baumel.

Q. Where do you live, Mr. Baumel? A. Austin, Texas.

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Q. What is your business or profession? A. I am a chemical petroleum and natural gas engineer.

Q. For whom do you work or are you employed by anybody? A. I am employed by the Railroad Commission of Texas.

Q. In what capacity? A. As chief engineer.

Q. Before I ask you what the duties of a chief engineer of the Railroad Commission of Texas are, I'll ask you to for the record briefly state for us your background and experience and education in the field of chemical petroleum engineering and so forth. A. I have a B. A. dgree in chemical engineering from the Univerity of Texas and graduate work in petroleum engineering and natural gas from the University of Texas, and I have been employed with the Railroad Commission since graduation, which was in 1937, and I have worked with the Railroad Commission since except for one year, a leave of absence which I was granted to be employed with the Venezuelan Government.

Q. During the 13 or 14 years since you have graduated you have been employed constantly with the exception of one year when you went with the Venezuelan Government as a petroleum engineer and as chief engineer for the Railroad Commission, is that correct? A. That is correct. I became chief engineer in 1945 and director of production of the oil and gas division in 1942.

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Q. During all that time have you had occasion to study with reference to the rules and regulations and the statutes of Texas regarding the conservation of oil and gas in Texas? A. Yes, sir.

Q. Would you briefly for us relate what are your duties with the Railroad Commission of Texas as chief engineer? A. My duties is to carry out the administrative orders for the Railroad Commission and enforce the rules and regulations of the Commission, pertaining to the conservation of oil and gas.

Q. Are you an advisor to the Commission in any capacity with reference to engineering, petroleum engineering and problems relating to conservation? A. Yes, sir, I am technical advisor to the Railroad Commission.

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Q. What is the next step that the driller of the well, owner of the well, in this case we'll say it is Phillips, what is the next step that they take in regard to that well? A. Well, if they want an allowable on that well to share in the market demand for the Texas-Hugoton field, they must

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submit to the Commission a potential test and with that potential test they must file a form 2 or completion report to show that

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that well is a producer.

Q. Then you ask an engineer of the oil and gas division to study that report and determine whether the potentials of that well, in order to set allowables for the well, is that correct? A. In the Texas-Hugoton field, the allocation formula is based on 100 per cent acreage times deliverability, so we require the operators in reality to submit a deliverability test to show the well capable of producing gas into the line at that pipe line pressure, and in this case we would not give them an allowable until they submitted a potential test and a deliverability test showing the well is capable of producing gas.

Q. After they had complied with that test, then would or would not they go about the job of seeking an allowable for the well? A. As soon as we receive the potential test and deliverability test we then issue, if that well happens to come in during the middle of the month, well, then, issue a supplement to that, giving them an allowable based on the total allocation formula for the field, which, in this case, they'd have to first submit to us a unit plat showing that they can circumscribe 640 acres to that well in order to get full credit for the acreage. If this case if they submitted a plat showing 640 acres to the well and a deliverability test, we would then figure their allowable on 640 times deliverability times the

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factor which we arrive at based upon market demand for that field.

Q. Does that fit in with your formal procedure with reference to promultating a proration order and allowables with reference to the fields which are depicted here by this Exhibit No. 12? A. That is correct. All connections and wells in this area are subject to that same procedure which I just outlined. Any new well that comes in, they would file a potential test and deliverability test and a plat showing the acreage dedicated to that well. We would then issue a supplement giving them an allowable. The next month we would then put that well on the proration schedule subject to the market demand for the field.

Q. Assuming that is the next month and I believe you stated a while ago that prior to the 20th of each month you have a state-wide hearing, is that correct? A. Under the statute, Section 12 of Article 6008, the Commission has to call a hearing to determine the market demand for gas prior to the 20th of each month, and that market demand is arrived at by each operator submitting nominations to the Commission as to what their demand is from their connections or in the field.

Q. Assuming that is April 1, 1951, I mean you have considered during the month of March 1951 the allowables to be set and prorations to be set in that field.

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A. That is correct. The Commission after notice and hearing state-wide notice of the hearing, will hear the evidence

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and go into it and to the market demand for gas for the whole state by fields. Then the Commission will issue an order giving every field and its market demand for that field. Our job then is to take that order and reallocate that allowable based on the nominations for each field according to the total allocation formula for the field in question.

Q. I'll ask you if you have not with you the allowable order, based on the nominations for the month of April 1951. Do you have that? A. Yes, sir, that is correct.

BY MR. McALLISTER:

Q. For what field? A. That includes the Panhandle, the Hugoton and the state-wide prorated fields.

BY MR. CRENSHAW:

Q. I'll ask you to look at that document and identify what it is. A. This document has two things together. First is that state-wide order which I spoke of where the Commission after notice and hearing called a state-wide hearing and determined the market demand for gas from each field. Then attached to that order is a proration schedule of each field which order allocates the nominations for market demand.

* * *

[3576]

Q. I believe you have already explained, Mr. Baumel, how the Commission, based upon the nominations for each field, then makes a state-wide allowable for all of the fields and then applying the proration allowable formula to each field you have arrived at what each well will be allowed to produce in that particular field, is that correct? A. That

is correct. We are bound by the statute to distribute the allowable to all wells in the field based on the allocation formula whether they have connections or not.

Q. In making that allowable for each particular well, we'll say, as shown here in Exhibit No. 12, state whether or not the Commission is restricted by the laws to do that on a basis which will not discriminate as between the producers in the same field. Is that correct or not? A. That is correct. We have to consider under the statutes the market demand for the field as a whole, not the market demand for each purchaser, and we take and total up the nominations from each purchaser and arrive at the market demand for that field. We then take those nominations and distribute them ratably according to the allocation formula to all wells in the field whether they have connections or not.

Q. Speaking specifically about the nominations in

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in that regard, I'll ask you to state whether or not that one who makes the nomination will also obtain or receive from the Commission an allowable which is equal to that nomination. A. Well, if he did it would just be a miracle, because it would be impossible for a purchaser to get exactly what he nominates in every day occurrences on the proration when you prorate to distribute the allowable ratably to all wells whether they have connections or not and we must consider the market demand for the field as a whole. The purchaser will in many cases end up with less than what he nominates and in a number of cases he will end up with more than he nominated.

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Q. Is that your experience with the Railroad Commission in setting the allowables for these fields, has that been the picture as you described it there or not? A. I might explain this, that when we first put a field on proration, the only way we can arrive at as to what the actual market demand for the field is would be based on the sworn nominations, but we have experienced over a number of years and based on human nature, that a purchaser will always over nominate so he can get the gas from his own connections. That will hold true for the first month but on the second month we take the actual gas from the field and disregard his nominations for the following month.

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For example, the total nomination for the field may be three million cubic feet a day. We would fix the allowable for the first month at three million cubic feet for the field and distribute it ratably for all wells whether they have connections or not based on the allocation formula. When we receive the producer's reports or 3-266, we check the production figures against the allowable schedule and if we find that instead of taking three million from the field they actually took two million five hundred thousand cubic feet, then the following month when we fix our proration schedules and the nominations are still three million we automatically reduce them to two million five hundred thousand because we feel that is the actual demand for the field and we distribute the actual take ratably to all wells whether they have connections or not.

Q. That is exercising your jurisdiction and control over

the wells and under our illustration in carrying it forward under this exhibit, that is the exact procedure that applies to the wells shown in the exhibit, is that true? A. The same procedure applies to any field which is under proration in the State of Texas.

Q. In other words, to be more specific, if Phillips has made nomination for its take from this field of the three hundred million as you illustrated a while ago, and it developed on the record that the actual take one month was only two

[3579]

million five hundred thousand, then the following month you would allocate to Phillips, two million five hundred thousand, is that correct? A. We wouldn't exactly allocate to Phillips. We would allocate that to the whole field and that field may have more than one purchaser and it may have more than one number of connections, we would distribute the take from that field, which under the example of two million five hundred thousand cubic feet, it would be on all wells whether they have connections or not, and if Phillips was one of the purchasers and they nominated half that amount and they couldn't get gas they would have to lay lines to those unconnected wells to meet their market demand.

[3580]

Q. All right. Having made your allowable—let's see, I believe Exhibit 134-A is actually the proration allowables that you promulgated for that particular field shown on Exhibit 12, is that right? A. That is correct. That is the

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allowable schedule that was issued effective April 1, 1951, which shows the monthly nominations, the amount of production, the acres and deliverability for the field and the net allocation monthly, and the number of connected allowables in the field. It shows that there are three purchasers in the field.

* * *

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W. J. MURRAY, JR.

was called as a witness, and having been first duy sworn, was examined and testified as follows:

Direct Examination by Mr. Crenshaw

Q. Please state your name. A. W. J. Murray, Jr.

Q. Where do you live, Mr. Muray? A. Austin, Texas.

Q. What is your business or profession or will you state whether or not you hold an office in the State of Texas? A. My profession is engineering, and I currently hold the office of Railroad Commissioner of Texas. I am one of the three Railroad Commissioners.

Q. I believe it has already been explained yesterday by General Thompson that is an elective office. That is right, isn't it? A. Yes.

Q. And you were duly elected at the last time required for

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your office? A. I was elected. Last summer I succeeded in acquiring the Democratic nomination. I made the mis-

take of saying I was elected last summer. I was elected last November.

Q. So this is the first year of your new six year term? A. That is correct.

Q. Had you been elected prior to that? A. I came on by appointment.

Q. When was that? A. In January of '47. I took the late Governor Buford Jester's place on the Railroad Commission. When he became Governor he vacated his position on the Railroad Commission and I served in his stead. I served under appointment for two year and ran for office for the last two years of his unexpired term and then last summer ran for a full six year term. I served four years in January of this year, beginning on the six year term.

Q. You have stated that you are an engineer by profession. I'll ask you to state briefly your educational background and experience as an engineer? A. I hold a degree as a B. S. and M. S. in petroleum engineering. I have lived all my life in the oil fields, my father being a rig contractor, and since receiving my educational training, I have worked in the oil fields, serving as consulting engineer and in times past have been employed by the Texas

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Railroad Commission in their oil and gas divisions as an engineer. Does that suffice?

Q. Yes, sir. Would you briefly state for us the duties of your office as Railroad Commissioner, I mean briefly, as you understand your own duties in connection with that office? A. The Railroad Commission regulates all public

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transportation in Texas. To outline those duties would be difficult briefly. I think I can just let it suffice to say we regulate all public transportation. We regulate, through our gas utilities division, intrastate movement and domestic sales of natural gas. We regulate the L.P.G. liquefied petroleum gas division or butane division, and we regulate oil and gas, that originally being a correlative minor subdivision of the functions of the Commission, due to the growth of oil and gas industry in Texas it is now our major field of activity.

Q. With specific reference to the regulation of the oil and gas industry in Texas, I'll ask you to briefly state, generally, what phases of the oil and gas industry in Texas do you regulate. I'll ask specifically you regulate— A. (Interrupting.) I'd say all, I guess.

Q. As it is produced within the boundaries of Texas, is that correct? A. Yes. Our primary function is conservation. That is the greatest duty of the Railroad Commission in its regulation of the oil and gas industry. There are many other duties but

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that always comes first and foremost. We regulate the drilling of wells, prescribe many safety and conservation measures relative to drilling. We regulate the spacing of wells and when wells are dry we regulate their abandonment so as to cause no contamination of water horizons or oil or gas bearing horizons. Producing wells, we regulate the method of completion, we regulate the method of production, so that will be produced efficiently and we prorate

or allocate the quantity of oil or gas which each well is permitted to produce. That first duty in proration is to fix allowables, as we call them, at rates which will not cause physical waste, and then since prevention of physical waste necessitates proration, restriction of the rate of production from each well, then we must distribute allowables among all of the wells in a field in an equitable fashion so as to preserve correlative property rights. In brief, the primary function is conservation. Conservation necessarily imposes upon the privacy of the individual to produce his well at the rate he would like. Therefore, when we restrict rates of production, distribute allowables, we take on the secondary function of preserving equity and protecting correlative rights.

Q. One of the primary bases, is it not, in a conservation program is always the matter of preventing waste, is that correct? A. Yes.

Q. Just state briefly, if you will, your idea of what

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it means to prevent waste, or in order to do that you might give us an example of what you mean by preventing waste in a gas field or with reference to a gas well. Is that too general for you? A. No. I'm just taking three breaths to try and be sure I do state briefly. That is my field of specialty. I was trained as a petroleum engineer. I have specialized in the field of oil and gas conservation. I was chairman of the industry committee, I was not then connected with the Railroad Commission, that made a report on the wasteage of gas in Texas, and that, so Governor

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Jester stated, was the reason for appointing me on the Railroad Commission, and I am so steeped in the subject that the temptation generally exists to dwell longer on conservation than I should. Now, you have asked for a brief example of how to prevent waste of gas?

Q. Before you start I don't mean to confine you in any way you'd like to explain. If you have anything further to say don't let my statement as to the briefness interfere with your statement. Just go right ahead in answer to that question. A. Well, I am so steeped in the subject of conservation, I think it is so tremendously important to the welfare of the state and of the nation, I think every citizen of Texas and every citizen of the United States has a vital interest in what we do in oil and gas conservation in Texas, and, therefore, it is pretty advisable to limit me and cut me off, that I don't

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get strung out here. Let me see if I can satisfy your question and do a brief job here. There have been two fields of wasteage of gas, first, from gas wells and secondly of casing-head gas. Now, I presume it is not necessary for me to define a gas well and what casing-head gas is. I guess that is in the record or everyone knows that.

Q. In that connection, in view of an objection that was made this morning with reference to an exhibit pertaining to oil production, I would, if you don't mind, like for you to explain what the casing-head gas is and how it is produced. A. Casing-head gas is gas that is produced in connection with the production of oil. It is impossible to

produce oil without producing gas. We have a statutory definition in Texas of what an oil well is and what a gas well is. If the gas-oil ratio is less than one hundred thousand cubic feet of gas per barrel of oil, then by statutes it is an oil well. If the well produces more than one hundred thousand cubic feet of gas per barrel of oil, then by statutes it is a gas well.

With that background, I think I can quickly discuss the conservation problems. In times past there has been a great deal of wasteage of natural gas and when I saw natural gas I am speaking of gas that is produced from a statutory gas well. We struggled to minimize and finally to eliminate the wasteage of natural gas. We now have a statute in Texas prohibiting the flaring of natural gas. One time in the past there was

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flared from the Panhandle field alone as much as a billion cubic feet of natural gas a day. That was a teriffic waste. It wasn't willful. There were many causes of it I could explain, but I think it unnecessary. But gradually we have substantially eliminated the wasteage of gas from gas wells.

Then there existed the second problem of conserving this by-product gas that was produced with oil. For a long time it was argued that that wasn't waste, that since it was impossible to produce oil without producing gas and since oil wells were scattered all over the state frequently remote from markets, that you couldn't regard as waste the flaring of casing-head gas, because there was no way of getting the oil which we had to have without getting

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the gas, too. But we felt that that gas was of great instrinsic value, too. Casing-head gas, chemically, physically, is no different from natural gas produced from a statutory gas well, and we felt it ought to be used too, that it meant too much to the future of our state and to the welfare of the nation to let that gas be wasted, and so we have long struggled with the problem of getting that casing-head gas marketed.

Briefly, the difficulty lies in the fact that every oil well produces gas. Usually in small quantities. So to market that gas you've got to have an extensive gathering system going to all of these oil wells. You have to have separation equipment separating the oil from the gas and then you have to

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gather that gas, you have to process it, compress it and deliver it to markets.

A gas well can be closed in until its gas is needed and then when there is a period of peak demand for gas, you open up the gas well and produce whatever gas is needed for the market. When the demand falls off, you restrict the well or close it in completely. The problem of casing-head gas, however, is that that gas is produced when you produce oil, and we need oil constantly every day in the year, so that gas must be marketed on a 24-hour basis 30 days a month every day in the year, and it has been an extremely complex difficulty, expensive problem to solve, and I am most happy to say that we have made amazing progress in the utilizing casing-head gas in Texas.

Today we are utilizing approximately three billion cubic feet a day of casing-head gas. In times past, nearly all of that casing-head gas was flared, because it was produced, as I said, so far removed from markets, had to be produced along with the oil. That wasn't as short as I intended it to be, but that, then, in general is the problem of gas conservation. Don't flare any gas from a gas well. Drill and complete and produce them in such fashion as to do no harm to the reservoir and because no waste, and, secondly, market the casing-head gas, give it preference, take casing-head gas first, because you can leave gas well gas in the ground and get it later, but if you don't utilize all of the casing-head gas that is produced

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today it is flared and is gone forever, and so then you begin to—here is a fellow who owns a gas well, he has a market for his gas and he would like to produce it currently, but if we let him fill that market, we may have to turn around and flare casing-head gas, so we have to hold him back and let the casing-head gas have preference in going to the market.

That by no means covers the field, but possibly—I am sorry I haven't been more brief and more responsive to your question, but that, I do believe, gives a proper picture of gas conservation.

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Q. With special reference to casing-head gas, your explanation there has been the reason why they say the first call is casing-head gas? A. Yes.

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Q. Those are the reasons for that? A. That is right. We recognize that there is a serious question of equity. A fellow has an investment in gas wells and wants to produce them. Why shouldn't we let him fill his market? We have to infringe considerably upon his freedom there, but if we don't hold back on those gas wells, we are going to have to let this casing-head gas go to the air and be flared, and we feel that the public has too great an interest even though we do have to take drastic steps, coercive steps, possibly, in forcing markets to be shared and forcing them to give preference to the casing-head gas. The alternative is to continue the flaring of billions of feet of casing-head gas while we use up our natural gas reserves. Then when the natural gas is gone and there would be a market for the casing head gas, it is gone, too, because you have to produce that with the oil.

Q. Let's talk for a minute about the production of oil and in the production of oil there is this inevitable production of casing-head gas also. Perhaps we could go down geologically speaking and describe the strata where there is a field in which there is a gas drive. Would you do that for us, briefly, explain what they mean by a gas

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drive? A. An oil field where there is a gas drive?

Q. Yes. A. Oil is produced from reservoir rocks. There is a common misconception that oil lies in underground lakes or pools, that when you drill a well down to one of these lakes or pools you produce oil from it as you would from a surface tank of water, until it is empty. That isn't

true. It is held in the tight pore spaces of hard reservoir limestone or sandstone. Oil is like water in a spring, it cannot of itself expel itself, you have to have some source of energy to force the oil out of the pore spaces into the bore hole. We therefore classify oil reservoirs according to the source of energy that moves the oil out of the pore space into the bore hole so it may be recovered, and those sources of energy result in these classifications of oil reservoirs. The most efficient source of energy is water under hydrostatic head pressure, so you produce oil, water moves through the pore spaces flushing the oil ahead of it. That is the field known as one with a water drive, the great East Texas field is an example of a water drive field.

Some fields are sealed off along the outer periphery and have no water that can come in, but they may have an overlying gas gap. In other words, the oil and gas are

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graviationly segregated. The oil being heavy lies in the bottom of the rock. The gas is lighter and lies in what is called a gas cap or dome above the oil, and that type of field is known as a gas drive field. You recover your oil by the expanding energy of the gas pushing downward on the oil. It is like the compressed energy of a spring. If anyone would understand the illustration, it is like getting water out of a seltzer bottle, the compressed gas above forces the oil to flow out.

I might digress to state to the Examiner my appreciation for being privileged to come in out of order in order that I may return, and also explain that I had no oppor-

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tunity to discuss with counsel and so I am not certain that I am completely responsive to the points he wishes to make. Did I answer the question of gas drive?

Q. Yes, you did, and at the same time you mentioned what a water drive field was, too, and that was my other question, the next question. In other words, if you have a water drive field you find the water on the bottom, is that right? A. On the bottom or the edge.

Q. Pushing on the sides or on the bottom? A. That is right.

Q. And the exact opposite of that is true if it is a gas drive, it pushes from the top?

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A. Gas pushes down.

Q. In the production of the oil to produce the gas—you said that was casing-head gas. How do you regulate the use of casing-head gas? A. Could I generalize a bit more and then be directly responsive to your question?

Possibly by making a few statements I can save time, if it is not out of order.

Q. It is all right. A. There is one other type of drive, what is known as a solution drive. We have water drive fields, we have gas cap fields, extending down and called gas drive, and the other is where you neither have a water drive nor a gas cap. The only energy you have for recovering the oil is gas that is dissolved in the oil. It is like the carbon dioxide in a coke, you punch a hole in the coke and shake it up and punch some of the coke out by the energy of the carbon dioxide in the coke. Unfortunately

you have a lot of fields that that is all you have. The recoveries you get from solution drive oil fields are in the range of fifteen to thirty per cent. The recoveries you can expect from a gas cap drive field are in the range of thirty to fifty per cent, and the recoveries you can expect from a water drive field are in the range of fifty to eighty per cent. Therefore, you see the advantage of having a water drive field. A further complexity exists

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that many fields have a combination of these, and it is the rate of production that determines which drive is used. If you have a water drive it usually will move in only at a certain rate, and you must produce your oil slowly enough to let the water keep up with it. Otherwise you will change from an efficient water drive field to a much less efficient solution drive field.

So remembering that solution drives you get fifteen to thirty per cent, if you have a water drive and will control the reservoir so as to take advantage of it you can run it up to fifty to eighty per cent. You can see the tremendous advantage. Now, I can answer your question of why do we control casing-head gas production. You see, that casing-head gas frequently is the source of energy that moves the oil into the bore hole, and in addition to that dissolved in the oil it makes it less viscous, more free to move. Oil devoid of all of its dissolved gas becomes viscous, tarry, and you just can't get it out of the reservoir, but if you keep that gas dissolved in it, it is fluid, about the viscosity of water, and you can recover it much more readily.

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So it is important to control the production of casing-head gas from oil reservoir for these reasons: 1, that gas is frequently the principle source of energy that is going to produce the oil and when the gas is gone, no matter how much oil you have left, you are through recovering the oil.

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That is one reason for controlling it. 2, that gas is you can keep the pressures up and keep it dissolved in the oil, makes the oil much more fluid or more easily recovered. 3, the gas has value itself and so you don't want to waste that gas after it has served its primary function of bringing the oil into the well bore. We still find it of immense intrinsic value and want to conserve it.

We prescribe what is known as gas-oil ratio limitations on all wells and say, now, you can't produce your well with more than a certain gas-oil ratio. That is commonly two thousand to one state-wide, although we recently had a hearing that have nearly changed it to one thousand to one, that is, the state-wide permitted ratio would be one thousand cubic feet of gas per barrel of oil. Wells with high ratios are penalized. They are not given as much allowable oil production as a low ratio efficient well would receive, and that control on gas-oil ratio is one of our biggest functions. We are trying to save that gas in the ground in order to recover more oil and then once the gas is produced we are trying to see that it is marketed.

I might further add, if I am not out of order, because you haven't asked the question,—

Q. (Interrupting.) Go right head. A. To increase oil recoveries we frequently have to supplement natural sources of energy. If you have a solution

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drive field with a fifteen per cent recovery, why, you see how important it would be to do something to artificially inject energy into that reservoir by pumping some fluid in, to get more oil recovery, and, therefore, frequently we have to order gas returned to the reservoir.

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Why would I consider that worthy of mention here? Well, we are just on the threshhold of tremendous steps forward in oil conservation, and I think more and more the commission will come to order oil fields produced in that fashion destined to give the greatest ultimate recovery, and we, therefore, will frequently have to order that casing-head gas which is committed to a market, there is nothing wrong with producing that gas and taking it to the market, except that that gas is needed to get the greatest oil recovery. Wherein we do our duty to the nation and to the state of the greatest oil conservation, we are going to have to more and more encroach upon the privileges of a pipe line to take gas from sources that they may have contracted for 20 years. For example, much of West Texas, that casing-head gas is being gathered and sweetened and taken—El Paso Natural is the biggest producer there. We are getting dreadfully low recovery in West Texas. Less than one barrel out of every five is being recovered. The

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two largest oil fields in this hemisphere are currently being developed in West Texas, the Reef Line production and the Sprayberry Sand Production. We are going to get one barrel out of seven or less, and to do something about that as desperately as the nation needs that oil, we are on the threshhold of ordering gas returned and we are going to have to step in and take over a lot of that gas that is committed to other sources, but if we are going to get that oil out, we are going to have to use that

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gas to pump that gas out. I have deviated from your question, and I recognize I should be more responsive to direct questions, but that gives me a chance—

Q. (Interrupting.) I want to ask one there. A. I believe he wanted to—

BY MR. McALLISTER:

Q. (Interrupting.) When you said El Paso was one of the larger producers, you meant carriers? A. Carriers, excuse me. To my knowledge they don't produce any gas. That was simply a slip of the tongue.

Q. I thought so and I thought you'd rather have it corrected than come back afterwards and correct it on the record. A. I appreciate that very much.

BY MR. CRENSHAW:

Q. In other words, Mr. Murray, based upon your previous testimony there with reference to the positive conservation to prevent waste as you defined it there, you have related, interrelated, the production of casing-head gas so that it shows vividly that it is necessary to supplement

and maintain the pressures and so forth to produce oil, that you must use that casing-head gas in that production and that as time goes on and the pressures decrease within the reservoir, it may become necessary to use casing-head gas, divert it back into the ground in order to produce and maintain those pressures, is that the way I understand you?

[3609]

A. Yes; except I couldn't quite agree with "may". We know it is necessary, it is now becoming necessary to use casing-head gas and in order to discharge our responsibility of getting the greatest oil recovery, we are going to have to issue orders of much wider scope than we would like to do. Our reservoir is a unit, and therefore we have to deprive a lot of individuals of the freedom of enterprise and freedom of initiative we would like them to have in order not to cause great loss of recoverable order, and it is a thing we shudder about, saying to a fellow, how, I want to sell my gas to this interstate pipe line, it is going for a good use, and we have to tell him no you can't do it, this gas has to be pumped back into this oil reservoir. We shudder to do that, but the alternative is to lose five or six barrels of oil for each one recovered under the ground and oil has become too critical to the nation for us to fail to do full duty in requiring these conservation measures.

MR. McALLISTER: Might I ask a question, please.

MR. CRENSHAW: Yes, go ahead, if you desire.

BY MR. McALLISTER:

Q. As I understood your statement, I think Mr. Crenshaw limited it some, you don't propose to wait until there is that loss made effective by reduced pressure in the reser-

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voir, but you propose to do something about it before the loss becomes irretrievable by reduced pressure?

[3610]

A. That is correct, sir. We used to have the thought, the industry generally, that we will go ahead and produce your field by primary methods and then when you got all the oil you can get by primary methods, then if it appears worthwhile we'll go back in and repressure or water flood, we call that secondary recovery, you got all you could primarily—well, you can get a whole lot more. Excuse me, a lot of fields you got down to the point and it wasn't sound to do anything more so you just abandoned them, and those fields where it was wise to have repressuring or water flooding, why, they'd do it, but in every case you could have gotten more oil cheaper if you had done it to start with than to wait until the last. In some cases, you can't do it at the last at all. In other words cases, you can do it fine at the last. But any time you are doing well at the last it is axiomatic you could have done better at the beginning.

Q. Will you explain for the record here just what is that takes place down in the reservoir so far as the viscosity of the oil is concerned where the pressure is reduced under the primary recovery method and which it is impossible later on to rectify by the introduction of gas pressure or what-not. Do you understand the question? A. I believe I do.

Q. I mean a certain amount of that oil that, let's call it, coagulates, for a general term and adheres to the particles

[3611]

of sand and becomes tar like, that is the oil you can never recover? A. We would be challenged if we would say it is lost forever, because you could by pumping gas back in and restoring it to its original pressure, in time it would go back into solution in the oil and the oil viscosity would be reduced.

Q. But you say in time— A. (Interrupting.) Sometimes that would very nearly be geologic time.

Q. That is right. A. So I cannot quite say it is forever lost, but I can say that the process is frequently too slow to be practical for humans to wait on it, and it is generally a lot more expensive, so why not do it right the first time to be sure of it.

Q. But you don't know of any fields where gas has gone back in and they have been able to wait long enough for that oil to return to full solution? A. No, sir. I do want to state that a great deal of good is done by injecting gas into old fields or water into them. I think everybody here is acquainted with what they have done at Bradford, Pennsylvania. They have got even more oil out by water flooding then they ever did by primary methods. I am enthused about those possibilities and want to see if we can't do something like that on every old field. But now that we know

[3612]

better let's try to do the new fields in the beginning, if for no other reason than to save money.

Q. Take the Bradford field you mentioned, that is small compared to the fields you have to deal with in Texas? A. That is right.

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Q. I mean the amount of gas—there are some fields in Texas where it would be impossible to find enough gas hardly to bring them back for repressuring? A. That is true.

* * *

[3617]

Q. Just one more element in connection with the recovery of oil. Is it not a fact that the chemical constituents of different characters of oil are such that in dealing with them in difference reservoirs, those are matters which have to be taken into consideration as well as those matters which you have mentioned? A. Oh, very definitely, sir. Each reservoir is diverent. I have generalized dangerously in giving these general recoveries, because you must study each reservoir. I might point out one additional thing. The newest technique on oil recovery, one of the newest, I should say, is what is called, or I may call, high pressure gas injection. By pumping gas into an oil reservoir to where you raise the pressure. When we repressure an old abandoned field we don't even raise the pressure back to original, we just build up the pressure to fifty, a hundred

[3618]

or two hundred pounds maybe, and in some fields we have what is called pressure maintenance, we pump gas in to keep it up to its original pressure, but the newest idea—it is more than an idea, it has been tested—is to build the pressure up as high as the reservoir rock will stand without parting, and the laboratory research results indicated we can get better than eighty per cent recovery by this high

pressure gas injection on a reservoir that would ordinarily give only fifteen per cent recovery, and it will soon be tried out in West Texas field, this high pressure gas injection.

MR. SPARKS: What field is that?

THE WITNESS: Block 31.

BY MR. McALLISTER.

Q. That is pressure up around twenty-five hundred pounds, something on that order. A. That pressure will vary with the individual reservoir. In general, it is related to depth, and they know they can go up to about a half a pound for a foot of depth. If your reservoir is five thousand feet deep, why, you could go at least to twenty-five hundred pounds and possibly something higher than that. When you get above a pound per foot of depth, you nearly always lift the old burden or part the formation, we don't know exactly what takes place, but instead of the gas going through the pore spaces in the rock, it breaks the rock

[3619]

down and by-passes it.

Q. And so it is lost? A. But that is the most promising new technique, this high pressure gas injection. When you go so very high you dissolve most of the residuals you were talking about, they dissolve in the gas. We have been talking about gas dissolving into oil, and the oil this time dissolves into gas and you get more out of it that way than any other way. The disadvantage, it is expensive. Think of the compressor cost, and it takes a dickens of a lot of gas, we've got to have a lot of gas for that process, but the advantages, think how much additional recovery

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we get and we don't waste any of that gas, it will be available at sometime in the future. We just have to take it away from the pipe lines right now but they are liable to need it more in the future.

Thank all of you for your tolerance of me. I'll try to be a more responsive witness.

[3620]

BY MR. CRENSHAW:

Q. In connection with what you are talking about now, state whether or not it is true that the Commission has issued an order concerning the construction of pilot plants in the Scurry field, in order to inject the gas? A. Yes, we have pilot plants there, both for water injection and gas injection. Possibly for the record, I should explain a pilot plant is a small scale reservoir test, rather than trying it for the whole reservoir you just try it for the small area and see how it is going to work.

Q. Awhile ago you were talking about, you mentioned, the gas-oil ratio, and how that applied to state-wide and particularly to some fields. Will you state whether or not there has been any recent order of the Commission with relationship to that gas-oil ratio, we will say, in the Shafter Lake field. Was it gas-oil or was it water? A. I think I know the facts, but I'm not sure. I may have forgotten something. I think I know what you are driving about. In the Shafter Lake-Devonian field, the Commission has issued an order, effective June 1, requiring them to return all of the gas they produced and all of the water they produced to the reservoir. That is a case like we were talking about. We were getting pityful small recovery, pressures

were just dropping, and so we have ordered that all the gas and all of the water be returned.

[3621]

BY MR. SPARKS:

Q. Is that gas connected with Phillips Fullerton plant, if you know? A. Yes. Is it permissible for me to occasionally be prompted by my engineer to be sure I get accurate facts. I know in the court it might not be all right.

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THE WITNESS: I am confirmed in that. That gas produced in the Shafter Lake field goes to the Phillips Fullerton plant and thence after being processed and sweetened is compressed and delivered to the El Paso Natural Pipe Line moving into

[3622]

interstate commerce.

BY MR. McALLISTER:

But if your order becomes effective, will part of that gas go back in the ground? A. If our order is complied with and sustained if we go to court, it will all go back in the ground, so even though the operators in Shafter Lake may have contracted that gas to Phillips and Phillips in turn has contracted it to El Paso, we think the public interest in getting the most oil recovery supersedes there and we are going to make them put that gas in, we are going to try and make them.

Q. Maybe I shouldn't ask you this question now, but you haven't any reason to believe that the Federal Power Commission doesn't fully agree with your conclusions in

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that regard? A. We surely haven't, because—I'm digressing again.

BY MR. SPARKS:

Q. (Interrupting.) Have you ever inquired with the Federal Power Commission as to whether they agreed with your conclusions in that regard? A. No, we haven't.

Q. Then you don't know whether they agree or disagree, do you, Mr. Murray? A. No; but it would be so much in the public interest and our presumption is that the Federal Power Commission, as is the Railroad Commission, is primarily concerned with the public

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interest, and we would asume—now, that may be a dangerous assumption and I haven't followed the Federal Power Commission's orders, I'm not as acquainted as I should be with the various statements of policy that have been made, but if in fact it is going to be definitely in the public interest to take the gas and use it in this fashion, it is difficult for me to conceive of our authority, and we feel that that is primarily a field of state authority, to regulate our natural resources so as to get the greatest recovery in turn for the public benefit, it is inconceivable to us that we would be interfered with, but that may be an erroneous assumption.

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[3628]

Examination by Mr. McAllister

Q. Do you have authority by order of the Commission to direct the return of gas to a particular reservoir which

was not produced from that reservoir? His question implies that and I want to get that straight first. I mean could you take all of the gas that is now going into the El Paso line, let's say, and if you needed that total volume coming from, let's say, a half a dozen reservoirs, could you take and order all that gas put back into one reservoir? A. I don't know, and if I could briefly elaborate, I guess all of you realize I am an engineer and not qualified to

[3629]

pass on the law, but I have watched it a bit, but there has been difference of opinion among very able counsel as to the authority of the Railroad Commission. For example, the Railroad Commission issue at one time 17 so-called shut-down orders on fields that were flaring large quantities of casing-head gas, and we told them, now, stop producing oil until you can utilize that gas. Well, all of those orders were attacked in court and counsel, I am certain, have sincerely and ably concluded that we didn't have that authority, and we recognize that it was an important test case and we didn't know whether we had authority or not, and the lower courts granted injunctions against us putting those into effect, but the Supreme Court upheld our authority and seemingly stated that if our facts were good enough, if it was truly in the interest of conservation, ifit were sound and practical, then the implied authority given us by the constitution and the statutes to protect and preserve the states natural gas sources gave us the authority to do that.

Q. When I asked the question I don't have any opinion

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one way or the other, but I do know there is a difference of opinion. A. I don't mean to evade, but frankly we are going to find out. If we have the authority to require an oil field to be shut in, that is pretty drastic. I don't mean to say that it wasn't reasonable that they would rise up and attack that authority. That is a pretty strong measure. You can make lots

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of arguments about why we shouldn't have that authority. We debated long and worried a lot and waited a good many years before we took that step, but if we had the authority to shut an oil well down that might be producing as little as 300 cubic feet of gas per barrel of oil, with a barrel of oil worth two and a half or more, and you set the price on 300 cubic feet of gas, two cents, three cents, why, it looked to some like the tail was wagging the dog, but we were sustained in that and now everybody is happy about it, because the gas is being utilized, oil is being produced and we are doing it at a reasonable price, we understand, or trust they will.

So if we have that authority, I feel that without any knowledge of law that the courts will sustain us if we are reasonable and careful to get plenty of facts in ordering gas to be returned to a reservoir when we are leaving many, many times as much oil as we get out. It is so much more economically important to get that additional oil than it was to safe that gas, that I feel we can be sustained there. There is one difference. Oil is underground and it is hard to see. Most people not acquainted with the oil

business don't understand it. But gas flaring in the air was something that the newspapers, radio and public opinion and the courts could see and understand, but I believe in time if we pick our case right we will be sustained if we don't be arbitrary and just go out and show them we have the authority and try to cooperate as much as

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possible. A lot of this will be done—I told you about 17 shut down orders. There many, many fields where we never did issue an order. In fact, as soon as we were sustained in court, we had to threaten—we moved right along. A lot of this will be done without the Commission having to issue an order, and that is the way we like it, but I do believe if there is no other way of getting the gas but to require it from some other field, and if we are clear enough in showing you have to put that gas in to get the oil out, that the courts will sustain our authority to do so, but in honesty I've got to say to you that there is presently no clear definite court decision upholding us in that.

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Q. I appreciate that. You are not taking too much time, as far as I am concerned, because it is very helpful. I wanted to ask you one question now. I'm not sure on all my facts, but

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as I understand it Phillips has little or no production in the Scurry County field, isn't that right? A. They are not as substantial.

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Q. That is what I meant.

If we assume that there is a small volume of gas out of the Scurry field that is now processed in the Fullerton plant or none of it is processed in the Fullerton plant or none of it is processed— A. (Interrupting.) Might I interrupt. I believe it is probably my fault. I talked about two things, Scurry in general. I brought it up to illustrate. The specific question dealt with Shafter Lake, and in the Shafter Lake now we have issued the order I was questioned about requiring the gas produced to be returned to the reservoir, and that gas, now, goes to Phillips plant, and that gas we are going to order taken away from Phillips and pumped back. When we left Austin a few days ago, the statement had come to us—that is an unreasonable order, we are not producing enough gas to do the job. All right, so we'll go out and order gas from outside this reservoir to be added to—and now, there I was partially answering your question. Whether we would be sustained in that order or not I don't know, but if it is absolutely necessary to put that gas back in to get the oil out, and if we have used all the gas locally available, I believe that if we are reasonable enough in requiring gas from outside sources to be brought in and put in, and that was, to the gentleman over here, was to the question he asked me.

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In Shafter Lake Phillips is a producer, and also is the operator of the Fullerton Gasoline plant that processes the Shafter Lake gas, and Scurry County was unrelated except that it is so darned big I brought it in on my own to us as an illustration.

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[3637]

Examination by Mr. Crenshaw

Q. Going back now to the Shafter Lake order, where you have ordered all of the gas injencted back into the ground, as already stated that has the effect of diverting gas that has already gone, that was going to, markets through Phillips lines and out to California, diverting that gas back into the ground. Now, then, assuming that the Federal Power Commission took jurisdiction of Phillips, and assuming further that they granted to Phillips a certificate of public convenience and necessity and that that certificate was based upon dedicated reserves of gas in that field, and then assume further that the Federal Power Commission would regulate Phillips Petroleum Company to the extent of saying to Phillips, you will take the gas that is produced in that field and dedicate on the basis of your dedication and put it in these pipe lines and supply those people in California, assuming that they made that particular regulation, then—

MR. McALLISTER: (Interrupting,) You mean order.

MR. CRENSHAW: Beg pardon?

MR. McALLISTER: Order, not regulation.

MR. CRENSHAW: Order through an order to Phillips.

BY MR. CRENSHAW:

Q. (Continuing.) —to take the gas based on those dedicated reserves, assuming that they regulated in that

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particular regard, then I'll ask you to state whether or not you have any opinion, if that happened, it would be

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an interference with your power or with your order which you have promulgated in that field?

MR. McALLISTER: Mr. Examiner, I should object to the question, but I'm not going to do it. I'll merely state that if those conceivable absurd assumptions ever became reality, I'm perfectly willing to admit there is a conflict, but I'm not going to object. I'm perfectly willing to have the witness answer.

PRESIDING EXAMINER: All right, go ahead and answer.

THE WITNESS: Based on those assumptions, there certainly would exist a conflict.

BY MR. CRENSHAW:

Q. All right, sir. I'll ask you to state whether or not the dedicated reserves is based upon the same considerations and factors as Your order with reference to the prevention of waste and conservation program, are they any different?

MR. McALLISTER: I object to that, Mr. Examiner, unless there is a definition of dedicated reserves. I don't know what the term means. It is not defined in the dictionary that I know, and it is not defined in any contract.

PRESIDING EXAMINER: Well, let's see what the witness has to say about it.

MR. McALLISTER: Well, I mean if the witness is going to

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answer—that is all right, I can have him define dedicated reserves. He is going to define it before he answers the question.

THE WITNESS: I sure can't define dedicated reserves and if counsel confesses he doesn't know what they mean I certainly would have to, my information is far more limited. I am fearful of the term dedicated reserves, even though I confess I don't know what it means, because if it were assumed that dedicating reserves meant that upon these particular specific wells and leases the Federal Power Commission felt they had authority to require the gas needed to supply a given interstate market to be produced from these particular dedicated reserves, then if that is what dedicated reserves means, I fear that there is grave grounds for conflict between the Federal Power Commission's authority and the state authority, and I don't worry so much about conflict between two authorities as I do the detrimental effect upon the public interest.

I can see three bases of conflict. One, I think, Mr Baumel explained this morning. It almost never happens that the gas nominated by the particular company, the amount they indicated they'd like to produce, comes out to be the particular share that they get, from their own wells or their connected wells. It is a very rare coincidence nearly impossible to attain, that they get from their own wells exactly what their market demand is indicated to be So unless we have a freedom

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to make them look to the field and the state as a whole for their gas, not expect to get it from any particular connected wells, then we haven't got the power to prevent waste and to prevent inequities, to protect correlative

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rights. That is number one. Mr. Baumel was discussing that this morning.

Number two is a matter that has also been discussed. I believe General Thompson first mentioned it. If we are going to utilize this casing-head gas we've got to have the authority at times to shove it in ahead of gas that may be dedicated from gas wells. Otherwise it is going to be blown to the air and none of us will have that gas to use, and so if the Federal Power Commission would say to company A which was definitely and primarily in the interstate transportation, business of transporting gas in interstate, say, look you have dedicated material gas reserves to us, don't you take any of that casing-head gas, you've got to produce from your dedicated reserves, or if we told them you can't produce from these dedicated reserves, you've got to hunt up in the open market your share of the casing-head gas, the Federal Power Commission would say, they no, they have these reserves dedicated, they have produced from them, and the third conflict I see would lie in the field illustrated by the Shafter Lake case, where I guess the Shafter Lake gas is dedicated and there is contracts to Phillips and Phillips in turn to El Paso, and we say, no, you can't produce that gas to interstate markets, you've got to pump it back in

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the ground and here comes Level Land and Slaughter where that gas is dedicated to El Paso Natural and we say you can't produce that gas to the pipe line, you've got to put it back in the ground. There is a third possibility of conflict.

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[3646]

A. To come back to the common purchaser case, we have one currently going on on a particular specific issue but it might relate to our general authority, but in general we consider this common purchaser Act as an obligation aimed primarily at the purchaser. The fellow has certain legal recourse against him without ever invoking the Commission. They can be sued under that Act without bringing us in and ordinarily we don't come in, it is relatively rare, but occasionally we have to come in and tell pipe lines to take from everybody. Of course, we pretty well handle that by a uniform system of allowables. One thing more on the illustration. You see, there is a relatively uniform posted price for oil. It varies in different areas, but always within a given field the price is the same and within a given area all of the same quality is the same price. The Commission doesn't go into the price of oil, and it is not for us to say whether it should be "X" dollars or "3X" dollars per barrel but the uniformity of the prevailing price enables us to avoid a lot of conflict there. One company doesn't come in and have a contract to buy oil from particular leases at half the price that somebody else is selling the oil for. So it makes it so doggoned much easier to swap around, to interconnect. One pipe line can deliver oil to another and it is all the same priced oil so it is just gathering

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charges involved, they swap it back and forth and it takes an awful lot of swapping to see that all of this intricate system of pipe lines and all of the fluctuations of demands

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up and down, we never do look to see who has the need for so much oil, we don't do that at all, we add up the total need for the state and divide it among the fields in the state, and Humble may need twice as much oil as they are connected to, they may come in and say we have war contracts, you let our field supply, they have done it, but they didn't get anywhere.

I have diverted, but I think it illustrates the situation that we are approaching with regard to gas. The time is going to come when we are—we are already doing it partially, but we don't do it uniformly over the state. The time is going to come when we will look to the total demand for the entire state and we'll throw in this casing-head gas first just like we throw in natural gasoline first in computing the demand for oil, because that natural gasoline has to be produced, so we'll throw in this casing-head gas that is to be marketed first and then we'll put on top of that or subtract that from the total demand and what is left we'll distribute to all the gas fields in the state on some equitable basis.

That may mean that an interstate pipe line with dedicated reserves, whatever that means, can't get near the gas they need. They've got to get out in the open market and hustle for it, and if they wouldn't pay the prevailing price for that gas, they

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might not get any, we don't say it ought to be this price or that price, but if the pipe line doesn't pay, it doesn't get any gas just like the company doesn't get oil now.

BY MR. CRENSHAW:

Q. What about the situation— A. (Interrupting.) Did I make that point clear? I appreciate the tolerance here because I am going afield from what I should, I guess, but there in is our concern. We respect completely the perogatives of the Federal Power Commission to regulate the interstate movement of gas, just as conceivably there could be a federal authority which would regulate the interstate movement of oil, but we feel it inherently must remain within our authority and responsibility to say where the gas is going to be produced and in what quantities and not to have to consider, well, is this oil dedicated to Humble to go to Standard New Jersey or is this gas dedicated to Phillips to go to a such and such interstate pipe line. We can't take that into consideration or we'd never get it done fairly. That is our conception of responsibility, to look after correlative rights and to say where it is going to be produced and while we don't try to fix the price, we feel that natural economic factors are the best way of working out price and if that price would only get to be uniform, whether it is high or low, that is not for us to say, but if it would be uniform for the same gas in the same area, then this matter

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of exchanges wouldn't be nearly so difficult. That is where we run into a lot of static where the company says, now, give us more share of the market, we don't want to connect our neighbors, you can't make us, but when it boils down to it they may have got even a contract at a low price and they want to take a lot of gas from there. We don't

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care. Well, we care, but we don't go into what the price is going to be. This difference in price makes it so hard to make the exchanges. Some of the companies have seasonal fluctuations and they have to swap back and forth if we are to work this thing out.

BY MR. McALLISTER:

Q. This price you mentioned applies to interstate movement as well as intrastate movement? A. That is right, yes, sir. You have allowed me a great deal of latitude here. Therein would be our concern, and presumably would be asked why are we concerned. It is none of our business but if anybody asks us our opinion, we don't take issue at all with regulating this gas interstate. We feel like we have to run where it is going to be produced and the matter of dedicating reserves could be an area of very serious conflict.

We have had one terriffc difficulty in getting this casing head gas utilized.

Q. We've had an awful time in the Federal Power Commission as Mr. Baumel well knows—surveys have been made to find a means to get it into interstate pipe lines.

[3650]

A. Our companies don't want to put it in interstate pipe lines.

Q. They don't want to put it anywhere. A. That is one of the greatest barriers, I don't mean to intimate whether it is justly one or not, but one of the greatest obstacles we have had to the conservation of gas. When we have some oil that needs to be moved we don't think whether

it is to Phillips or Shell or Humble or a little independent that is going to truck it, we don't give a darn. It is an allowable and the producer doesn't care and we just look to whose the nearest to him to get him to go over and make the connection, but when we get to the matter of gas we find there is five million feet of casing-head gas being flared and we want to make a market. We find there is an interstate pipe line running by there and we ask them to put it in the interstate pipe line, well, the interstate line has commitments to certain areas and the companies wouldn't sell, they want to get it over here to somebody that is intrastate, so they won't be subject to the control of the Federal Power Commission.

There is our concern. We are not concerned at all about the complete regulation of gas that moves interstate, but we do feel it is the perogative of the Commission that we've got to have the complete authority to regulate the production in order to discharge our first responsbility of conservation, and our second responsibility of preventing inequities.

[3651]

Q. Then it will help to solve this problem if they are all subject to our jurisdiction in some respect and they know that, and you order them to sell it, why, to the pipe line, if they produce it, they must sell it, isn't that right? A. If they produce it—well, they don't have to sell it, they have to utilize it.

Q. They have to utilize it, that is right. A. To go back to my illustration of oil, if, say, you had authority over interstate oil pipe lines, we wouldn't worry about that,

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but we'd think that the fellow who produced oil, the act of production, would be completely out of your sphere. We'd regulate production—

Q. (Interrupting.) I agree with you on that. A. We'd say this field is producing wasteage. You've got to shut it down completely. We'd feel that was out of your province. Then such oil that was permitted to be produced by us, wherever it was produced, if it moved interstate in the pipe line, from the time it got in the pipe line I'd consider it under the jurisdiction of this federal agency. I don't see where there would be any conflict.

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Examination by Mr. Sparks

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[3657]

Q. (Interrupting.) Let me read you, Mr. Murray, just one sentence out of the Natural Gas Act. That is Section 7 (b):

> "No natural gas company shall abandon all or any portion of its facilities subject to the jurisdiction of the Commission or any service rendered by means of such facilities without the permission and approval of the Commission first had and obtained after due hearing and the finding by the Commission that the available supply of natural gas is depleted to the extent that the continuance of the service is unwarranted or that the present or future public convenience or necessity permit such abandonment."

I'll leave this in front of you here so you can see it. Let's just assume that Phillips Petroleum Company is held to be such a natural gas company and assume that the facilities

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of Phillips Petroleum Company are held to be facilities subject to the jurisdiction of the Federal Power Commission, and we'll assume in connection with your Shafter's Lake situation that you order Phillips Petroleum Company and the producers to return that residue gas to the reservoir, which Phillips has in the meantime been selling to El Paso. If, under that statute, Phillips Petroleum Company is a natural gas company and if it ceases to sell and deliver that residue gas to El Paso Natural Gas Company and that the Federal Power Commission construes that to be abandonment of service to that extent, then the only basis on which Phillips Petroleum Company could obey the order of the Railroad Commission would be by securing the consent of the Federal Power Commission, isn't that right, irrespective of what Phillips Petroleum Company's contract with El Paso may state? A. It would seemingly follow to me. We are getting some letters from some interstate pipe lines saying they can't comply with certain—or that was the interpretation we made of the letters—I trust we must have misread it. They were saying they wouldn't comply with what we were telling them to do relative to production because they were under the jurisdiction of the Federal Power Commission. We replied back that possibly they couldn't but they couldn't keep on producing those wells.

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MR. McALLISTER: When you get some of those letters, would you be good enough to send them to the Federal Power Commission?

THE WITNESS: I think I haven't myself read the letters, and so I don't mean to be under oath testifying to them, but I think we'll get some of the copies of the letters up here.

MR. McALLISTER: I'd appreciate seeing them, because you know there are some times some people who will assume a condition feeling that if they can avoid compliance by their construction of what they would like to think for a particular purpose, why, they don't hesitate to use it, but when the two agencies get together you can see through their device and it doesn't avail them a whole lot.

THE WITNESS: We imagine that that situation would exist here.

MR. McALLISTER: Sure.

THE WITNESS: And I make no issue of the letters. They will be brought up here, but in answer to your question, if that were true, they had to go get permission from the Federal Power Commission before they could comply with our orders—

BY MR. SPARKS:

Q. (Interrupting.) Before we could desist from and change or reduce, abandon, the service of the deliveries of gas that had theretofore been made, then if they had to

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get such authority from the Federal Power Commission, that would conflict with your order, wouldn't it? A. Yes.

Q. And the only two grounds on which you can get that authority from the Federal Power Commission are, one, the completion and supply, which, of course, in this instance doesn't exist, and the other one, I think, has to do with public convenience and necessity, which would be a matter lying within the jurisdiction, of course, of the Federal Power Commission.

MR. McALLISTER: They used to say the Devil can quote the Bible to his own purpose. You can assume facts here that make an answer obvious when there is a particular end sought.

The assumptions which underly the answer which Mr. Murray made, which is a correct answer on those assumptions, he couldn't reach any other conclusion, but the whole vice lies in the assumptions and we'll take care of that some other place.

I agree with the answer. If I were on the stand, I'd have to answer the question just like Mr. Murray did, because the assumptions are so violent they are entirely removed from reality.

* * *

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THE WITNESS: Of course, I am at a loss here. I would assume that many of these presumed areas of conflict do not exist, just like the letter we got. Now, I imagine we'll get together and we'll find that they are in no wise con-

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strained from complying with our requirements because it purely relates to the production and assignment of allowables and maybe they don't want to do it, we are accustomed to that device there, and we think they just say some other authority says they can't. So if the conflict lies simply on a basis of misunderstanding and misinterpretation, the question comes back, why are we worried about this.

The things that we in the Texas Commission haven't been able to understand is why the Federal Power Commission would care to assume jurisdiction over Phillips which to us is primarily in the field of production and gathering and processing gas, but it is all right in Texas and we've got to keep very close control over them in order to force compliance with conservation and correlative rights, so therein I guess that is what the whole suit is about here, whether they are or not, but there is the thing we can't understand, why you'd want them.

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MR. McALLISTER: Well, there is just this point about it, if under the law laid down by Congress our Commission is charged with an obligation to do certain things, you wouldn't expect us to avoid that obligation, would you?

THE WITNESS: No.

MR. McALLISTER: Let's make a violent assumption. If I didn't agree with the law, if I was employed to enforce the law, why, you would assume that I'd do my duty as I saw it under that law which I was obligated to enforce?

lated, but if you just had one bakery and you couldn't bring any bread in from outside, you had a monopoly, and therefore the public interest, since there existed a monopoly, demanded the price of bread be regulated, that wouldn't mean you'd have to go out and regulate what the farmer got for his wheat, because it went into making bread.

We don't quarrel at all with the regulation of the earnings of this interstate pipe line, because up there in Wisconsin I guess you don't have a whole lot of choice of who you buy your gas from, and so you can regulate what that pipe line earns, but I'll be doggoned if I don't feel that down here where the gas is produced it ought to be at a fair market price, prevailing price, not go into what it costs to find the gas or anything else. If you were buying Texas oil, you don't expect, and you do consume a lot of heating oil in Texas, but I never heard it argued that you had a right or asked a federal agency to come down here and regulate the price of fuel oil.

BY MR. TULANE:

Q. That is true, Mr. Murray, but there are various oil companies you can buy from. When we buy gas we buy from one source, one pipe line. The State of Wisconsin has special legislation to allow you people to come into

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our state and now the price of gas has been raised about three times since the initial contract was made. We have no one else to turn to. A. Isn't nearly everything you live with or eat raised a whole lot? We pay too much for our meat and too much for our clothes.

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Q. It is true that there is inflation, but isn't it a theory of law that is followed in even the most conservative society that when anybody has a monopoly they must be subject to government regulation? A. I wouldn't quarrel with that at all, but Phillips doesn't have a monopoly on the gas.

Q. They have a monopoly on the gas we are getting. A. You are perfectly free. You can't look to one particular well or field for gas. If you are going to get gas from Texas, we'll do our best to see you get it and we want you to have the cheapest gas through the years as possible, but you've got to look to the fields of Texas for your gas, and it has to be interconnected enough to where we say, no, you don't take any gas from Phillips, we've got some casing-head gas you've got to take. Therefore, you ought to pay a prevailing price for gas down here, whatever that is, just like if somebody had a monopoly on the distribution of fuel oil in your state, you wouldn't control the price of oil down here, but you wouldn't expect him to

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come down here and pay vastly different, three times, the prevailing price.

All you'd do is expect him to pay the posted price for his fuel oil. Then you could regulate his trucks or pipe lines to get it up there.

Q. What about the prevailing price of that gas before you put the pipe line in? A. Your point is it ought to be frozen?

Q. No, we want to buy your gas, we want to pay a fair price, but we feel you have a monopoly and when

you have a monopoly, your gas— A. (Interrupting.) Excuse me, you say "you". Do you mean the State of Texas or Phillips—

Q. (Interrupting.) I am referring to the State of Texas, not you personally. That gas would have little value unless they had the States of Wisconsin and Michigan and possibly Missouri for a market. What would the prevailing price be if you didn't have those northern states for a market? There is no such thing as a prevailing price aside from that market. A. What we need for the best interest of Texas to do with that gas is to use it here. We are sacrificing our industrial future in order to supply you with gas. I have raised my voice in protest, I have been criticized, because I do know that the future of Texas depends on keeping

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the gas and using it as a fuel, it is the only fuel we have. When our gas is gone, we're through, you can go somewhere else for coal or something else, we're washed out, but more importantly as a raw material gas is too valuable as a chemical raw material to ever even be burned, but still we say—no, I say, don't try to stop it from going up to Wisconsin, don't stop it from going anywhere, just let these things work out under the economic laws and free competition.

If an industry will come down here in Texas and pay more for that gas than you all are willing to pay, then it ought to be free to buy the gas and use it down here. Such an industry would give us jobs and buying power, many things, we know, but we have never tried to cut them off

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from that. I'd better say I haven't, because there are some who say it ought to be stopped.

We could argue about the value of gas. What are you going to set as a fair value for gas? Compare it on Btu with oil or coal. You, of course, know how it stands that way, but I can make an argument that you can make nylon hose, fertilizer, rayon, explosive, rubber, out of gas, that it has a whole lot more value than an equal pound of coal or heating oil, but to me the thing has just got to work itself out under the free laws of supply and demand.

If you are going to come down here and freeze a low

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price, then that would work to your temporary advantage. I am saying you now are representing the consumers up there, but pretty soon—that is the one thing we ran into, the courts nearly knocked our orders out on, this flared gas, because we were ordering them to do something that they could show had to be done at a loss, and by the rise in price that has taken place in the last few years, it has made it possible for us to get this billions of feet of casing-head gas utilized.

You say your consumers are paying the bill. What is a few cents a thousand when we market that gas down here—I don't know what you pay, but a few cents a thousand isn't a very big percentage of your retail price up there. The cost of transporting it and all is so much bigger than three cents, or five cents or ten cents a thousand, and yet it means a difference down here, whether we can afford to save it and whether we can afford to drill for it and

develop it. What are you going to do if we can't afford to keep on developing our gas? You'll have to double your price in order to amortize your pipe line over a short period of time and then you are out of gas.

I am representing the Railroad Commission and we are intervening in this case, but we don't stand in Phillips' shoes here and we don't expect them to accept everything we say. Heck, we have a lot of controversy with Phillips down

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here. Our duty is to the consumer. There are a devil of a lot more consumers in Texas than producers, but our duty is to see they have a supply of gas over the years, and we think we are looking after the interest of consumers in Wisconsin just as much as we are in Texas.

Q. Let me interject this. We want to buy your gas. We want to pay a fair price for it, but we don't think you are justified in assuming the Federal Power Commission will not give you a fair price and we don't think we should be subject to the arbitrary whim of some company not even subject to your commission, as to the price at which it sells. A. You burn our gasoline up there, don't you?

Q. Yes. A. And our heating oil?

Q. Yes. A. Do you think the federal authority ought to come down here and regulate the price of crude oil?

Q. As long as there are two companies competing with each other, no. A. There is a lot of competition among various gas companies for gas and there is competition between gas and all other fields. That is the point I have been trying to make, that you can't look to any one source for

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gas, no more than Humble, who had commitments to sell to Standard of New Jersey, could look to a certain Texas oil field; they

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had to look to the state as a whole, and we'll endeavor to produce the gas you need from the state as a whole, and we hope it will be a fair and reasonable price, but if one company has to charge too much, you have to be set up where you can get it anywhere, take it where you can get it the cheapest. We have so far taken a stand against our state having authority to fix a minimum price on gas.

We have definitely admitted that dreadful waste is taking place; a billion feet a day alone in the Panhandle Field being flared. Why? Because the price wasn't enough to cause it to be utilized. All this casing-head gas, billions and trillions of feet through the years that has been flared, but we said in time the intrinsic value of gas will be recognized and we'll fight it today, and as soon as the price rises to a reasonable economic level, then it will be possible for us to conserve the gas.

We have a bill in our legislature wherein we may be given authority to set a minimu mprice. We don't want that. We are, I guess, out of the times. We don't want to control the minimum price, we don't want other prices fixed, we think the consumer profits most by having free competitive system. I may be the last guy to hold on to that philosophy, I don't know.

* * *

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THE WITNESS: I think I can briefly give a better

answer to the gentleman from Wisconsin than I replied a while ago. The Texas Railroad Commission has a responsibility of regulating the domestic price of gas. Now, there is a certain field overlapping the federal commission, if it is

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an intrastate pipe line or company and selling gas solely in Texas, and we regulate the price. We have had a lot of cases, a lot of litigation in the past, a lot with Lone Star, for example, say, in Dallas, they had a monopoly, had, one time in Dallas, so we had the responsibility of fixing the price they could charge, but we never went back to trying to fix the price that the producer received because at Lone Star you just go pay three cents or ten cents, whatever the competition, because there are a lot of producers of gas; then from the time you pay that, then we watch what you do from then on. We look into your total capital investment and give you a reasonable earning on it, and we have to discharge that responsibility.

Our interest isn't to represent the producers here, as you can well see. We hope we do the right thing whether it is politically expedient or not, but we are elected and there are a heck of a lot more consumers of gas in Texas than there are producers, and we move in every chance we can to force a reasonable and the cheapest—which is our definition of reasonable—price of gas to the consumer, but we don't meddle with what the producer gets, because if we did meddle with what the producer gets, presumably our only legal basis—for example, we might say, Mr. Producer, what do you have in that well? What did it cost

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you? How much do you have invested in finding gas and so forth? You

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see, the first thing you knew you'd be claiming a lot more—up to now the producer has rarely realized his investment out of the gas and we think the consumer has profited by us not trying to regulate the price of gas, just letting them freely compete for it, and I feel you will profit the same way.

If one company controlled all the gas in Texas, boy, that would be a vastly different situation, but the fact there is free competition between the producers of gas, just as in oil, makes it seem to us that we ought not to fix price. We ought to not have the authority to raise it up. We may be given it, and then we are sure enough going to be in conflict, I guess, but we like to let you get it as cheap as you can wherever you can, and then the company that has a monopoly as a pipe line—I don't understand that your company produces in Texas?

MR. McALLISTER: Michigan-Wisconsin does not.

Might I ask you one question there, Mr. Murray, and that is this, you have never made any study to determine whether or not with respect to the supply of gas to a particular pipe line, whether one or more producers may have such a control over available gas that it amounts to a monopoly, you have never made a study to determine that, have you?

THE WITNESS: I have made a considerable study on supplies of gas. I won't say my studies should permit me

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to reach a conclusion, although I didn't make the study for the purpose of determining that fact, and I don't think that any producer in Texas has the control over the supply and no pipe line can afford to be dependent upon a single producer because we are not going to let it work out that way.

I have been explaining earlier that if we have the right to fix allowables, if Phillips is the only source of supply, Phillips isn't going to be given the allowable that enables them to meet the demand. We cannot permit Phillips to produce the gas you need in Wisconsin.

MR. McALLISTER: I mean they supply all the gas that goes up there, they have a contract to supply that and the pipe line company has a contract which obligates them to buy all the gas from Phillips.

THE WITNESS: Even if you can get it cheaper somewhere else?

MR. McALLISTER: Yes.

THE WITNESS: Suppose Phillips can't produce enough?

MR. McALLISTER: I don't know.

MR. SPARKS: Oh, oh, under the contract in that situation, Phillips can supply the gas from the dedicated acreage and they can go out and buy it anywhere they want to.

MR. McALLISTER: Well, they have to take it off of you,

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and you have been supplying it—

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MR. SPARKS: (Interrupting.) Whatever can be produced from the acreage that is dedicated to the contract.

MR. McALLISTER: Or otherwise. You can supply it even though you can't get it out of your dedicated acreage.

* * *

Examination by Mr. Sparks

[3683]

Q. Mr. Murray, what is the basic purpose of conservation of oil and gas? A. Well, the basic purpose—

MR. McALLISTER: (Interrupting.) You are relating that to the operations of the Railroad Commission of the State of Texas and the State of Texas?

MR. SPARKS: The operations of the Railroad Commission and the basic purpose of the conservation laws of the State of Texas as you understand them as the Railroad Commission enforces and interprets the laws.

THE WITNESS: Well, I was about to give you an answer as to why I felt conservation of oil and gas in general was so important. If it relates specifically to conservation in Texas, I'll add certain other qualifications. In general, it is tremendously important because thereby we can assure for the longest period of time an abundant supply to the consumers and

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at the lowest price. It is particularly important in Texas because oil and gas represents so large a portion of our natural gas resources, our major mineral wealth, and we recognize that the quantities of oil and gas we have are

fruits. We keep discovering additional quantities but still we know they are fruits. The nation will suffer if we have to turn to other sources for our supply of oil and gas. Texas will suffer particularly because its principal economic resource will be exhausted, so the very economic lifeblood of Texas is oil and gas. The security of the nation is very vitally dependent on the oil and gas reserves of Texas, so the consumers of the nation that may be using Texas oil and gas and those concerned with the military security of our nation and every citizen of Texas who has any stake in the economic well being of our state have a vital concern in the conservation of oil and gas. Did that answer your question?

BY MR. SPARKS:

Q. Yes. In accomplishing the maximum conservation of oil and gas, is it the purpose of the Commission and the conservation laws of the State of Texas to so regulate the production of oil and gas that the maximum of oil and gas that is produceable from reservoirs is recovered? A. Would it be any trouble to read the question back to me.

(The question was read by the reporter.)

[3685]

A. Yes.

MR. McALLISTER: Mr. Examiner, might I ask the witness one question there.

BY MR. McALLISTER:

Q. You say the purpose of the laws and the Railroad Commission, the laws speak for themselves I presume? A. Yes, although it has taken a good many years to have

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them interpreted to where they spoke clearly to all of us. My understanding of his question, and I fear I possibly missed some of its content was he asked me if in following the laws and carrying out the duty of the Railroad Commission to accomplishing maximum conservation was it our purpose to regulate production so as to accomplish maximum conservation.

Q. I don't know whether Mr. Sparks meant anything by putting in the words to have you interpret the laws or the statute or whatever it was, but I think your answer makes it perfectly clear what you had in mind. A. It is our interpretation of the statutes and we have so concluded from the court decisions that that is the primary duty of the Railroad Commission in the conservation of oil and gas is to accomplish the maximum conservation.

MR. McALLISTER: Thank you, Mr. Murray.

BY MR. SPARKS:

Q. Mr. Murray, the very concept of conservation of oil and gas includes within it as a major premise that the objective is to secure the greatest ultimate recovery from the reservoirs

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of oil and gas discovered— A. (Interrupting.) Yes, that would be our definition—

Q. (Continuing.) —because that that is not recovered is lost? A. That is right, in other words, that is our definition of conservation, attaining maximum ultimate recovery.

Q. And that which is left in the reservoir and not recovered is in effect wasted insofar as any useful purpose to humanity is concerned? A. Yes.

Q. Is there in your judgment any relation between the price of gas and accomplishment of the purposes of conservation and maximum ultimate production and recovery of gas from reservoirs?

* * *

THE WITNESS: I would answer definitely yes. I was about

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to elaborate as to what relationship I felt existed, but possibly I should wait for a question.

BY MR. SPARKS:

Q. I'll ask you that next. What is, in your judgment, that relationship? A. I think I made some statements yesterday indicating specifically that relationship in certain instances. We have had to waste a lot of gas in Texas because the prevailing price was too low to make it economically sound to conserve that gas. I mentioned that particularly relative to the flaring of casing-head gas in my testimony yesterday, or at least I intended to.

PRESIDING EXAMINER: I thought you made that quite clear, Commissioner. I am just wondering whether or not it is going to be necessary to go back over it.

MR. SPARKS: I am not going back over that.

THE WITNESS: If I did make the point clear yesterday I'll pass on. Conservation of casing-head gas is particularly sensitive to the price of gas. Conservation of natural gas, recalling the definitions I gave yesterday, that is gas from a gas well, is sensitive to the price of gas. No gas well produces all of the gas that can be produced. It is produced until it reaches an economic limit. It is still

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capable of producing gas, but the rate of production is low and the cost of operating the well may be high, and so at the then prevailing price for

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gas a point is reached where it is no longer economically sound to produce that well, and so it is abandoned. If the price were higher, the well would be produced longer and the ultimate recovery would have been greater.

BY MR. SPARKS:

Q. And if the price were lower, the economic limit would have been reached sooner and there would be an abandonment of the well at an earlier date with a greater loss or greater volume of gas left in the reservoir and not recovered. A. That is correct. Now, I discussed somewhat yesterday what we call secondary recovery of oil. To some degree those same principles would apply with regard to gas. Not only is there cost involved in maintaining a well in operating condition, but a point is reached where the pressure of the reservoir, if it is a depletion type reservoir, the pressure in the reservoir no longer is sufficient to force gas through the pore spaces of the sand into the well bores, thence to the surfaces of the ground, thence through lines to the gathering line, and if compressors are installed, in some cases—West Virginia is one case I know of—the price of gas is sufficient to justify pulling even a vacuum on these producing wells which greatly increases the quantity of gas that can be exhausted. In Texas, generally, this isn't true of the Panhandle field, which, I guess, is most concerned here, but generally, particularly in the Gulf Coast, we consider 500 pounds as the economic

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limit. I don't mean I, the industry generally. In other words, when you get down to 500 pounds you abandon your well, because it isn't feasible to install compressors and gather the gas at lower pressures. As the price goes up the abandonment pressure of the reservoir will go down, and so there is another evidence of the relationship.

There has been a recent discovery or a tentative conclusion reached in the laboratories presently being subjected to field tests that has startled us a good bit. A depletion type gas reservoir or volumetric type as I have been referring to is one that is sealed off, it has just got gas in it. It is like air in a pressure tank at a filling station.

Q. You mean it doesn't have a water drive from the bottom? A. That is correct, it is sealed off, and the gas is produced as long as there is enough pressure in that reservoir to cause it to be produced and that was the type I was talking about abandoned at a pressure of 500 pounds.

Q. The Panhandle field is that type of reservoir? A. Correct.

Q. And the Hugoton field is that type of reservoir? A. Yes. Now, there are a great many gas fields that have water drives. Most of the gas fields of the gas companies, for example, are water drive fields, and we have always concluded without particularly inquiring into it that recoveries from these drive gas fields would be high. We just didn't bother to do

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a lot of testing. We figured, well, with the water flushing the gas out and gas being so much lighter than water it

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would just rise above the water and we'd get 90 per cent or better of the gas recovery.

Q. And as you have experienced, for example, in oil fields with the water drive? A. Well, we didn't exactly correlate that. I said yesterday 50 to 80 per cent was the ratio of recovery in a water drive field. We came to assume as we came more and more to realize, it is dangerous in the oil and gas industry to make any assumptions without testing them out. We thought recovery of gas from a water drive field was so simple we didn't need to worry about it, you'd get just about all of it out. We have recently discovered that recoveries of gas from a water drive reservoir will be about the same as recoveries of oil. In other words, what we had thought to be the most efficient type of recovery in a gas field, we now conclude we will get from 50 to a maximum of 80 per cent of the gas out, or to state it conversely, in the best of water drive fields you will leave more than 20 per cent of the gas and in many of them you'll leave as much as half of the gas. Well, now, all of those fields we have been counting on getting about 90 per cent of the gas, and I daresay again being permitted to divert, but I daresay this will be of some measure of interest to the Federal Power Commission because they take considerable interest in the

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reserves of fields, and I daresay they have presumed, because that has been the basis of many very able engineering and geological reports on recoveries, that you get about in the range of 90 per cent from these water drive fields.

Now to come back and say we may get only half from a water drive field does two things. It makes us take another serious look at the reserves we thought we had and we see we can't recover, and two, it starts us thinking, isn't there some way of getting that gas out. I did a bit of talking yesterday about these many barrels of oil we are leaving behind and our great interest to try and get them. As soon as we realize we have been guessing wrong on water drive gas reservoirs, then the next question is let's see for sure if that is true and then let's figure out something we can do about it. I don't think there is even anything in the literature yet on these conclusions.

Back a good many years ago there was some that pointed the way to it, but we didn't read then, I mean we didn't read between the lines. We saw these conclusions, these research results and left them hanging there; as so frequently happens some new discovery is made and you find that 50 years ago some pioneering researcher pointed the way there and we forgot about it. This was pointed the way to a good many years ago and now we are going back and testing it.

We are core drilling gas reservoirs and finding out of these cores there is half the original amount of gas left behind.

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My point there, again I recognize and I apologize for diverting this much from the particular issues in this case, but I think it is pretty important for all of us to begin to pretty searchingly look at these gas reserves. We don't want to count on the gas we don't have, and, two, I can

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now answer more specifically your question as to the relationship of price because we think already we see techniques are possible for getting some of this gas that would be left behind, but it costs money to do it, not exorbitant quantities but it costs several cents per thousand to do it and so unless the price is high enough to permit what we might refer to as secondary operations in a gas field, we can't get that gas and it can amount to as much as 50 per cent in a field we thought previously we'd just sit back and get all of it. I have diverted but do I make my point clear?

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Q. Yes. In addition to the situations you have mentioned, is there not in most gas fields and particularly for example in the Panhandle field acreage, both within the field and around the edges of the field where the sand is tight or thin, with low perosity and permeability, so that wells with low productivity, if drilled, can be expected. A. Yes.

Q. And is there not a relationship between price of gas and the amount of development which will occur with respect to the low productivity areas which exist in virtually all fields at some place or other? A. I believe I understand your question. In nearly any field there will be areas of productivity that at a given price it is not economically feasible to develop when at a higher price, it is possible to go in and develop those marginal areas and greatly additional recoveries can be expected. That is true in most fields. Portions of many fields, let me say. It is also true that some entire fields, large areas, are of such a low order

of magnitude of productivity that at a given price you can't develop the field at all. At a higher price it could be. Possibly I intended to and believe I made some reference yesterday—in times past when gas price was lower and markets unavailable it was common when you drilled for oil and encountered gas strata just to abandon the well. Only in relatively

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recent years has there ever been any intention of deliberately drilling for gas, and so the fact that great areas of gas in the past have been drilled into and abandoned because it wasn't economically sound and frequently they were just left open to the air—not so very many years ago a well drilling for oil blew out of control producing from a substantial gas reservoir. The operator just went off and abandoned it. They said we are not interested in coming back and doing the necessary work to bring this well under control and it sat there, and burned many, many millions of feet of gas daily, until the Railroad Commission—I was then in their employ as an engineer and was in charge of the operations—we took it upon ourselves to go in and kill that well.

Now, I cannot conceive today with a higher price for gas of the operator just walking off and leaving a well blowing about fifty million feet of gas a day in the air because they didn't want to spend the money to control it. I think now I have fairly generally answered your question of the relationship between price for gas in the conservation of gas from gas wells and the conservation of

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casing-head gas. My discussion on casing-head gas was principally given yesterday.

Q. Are there not areas of low productivity from which small wells, low productivity wells, can be expected in the

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Hugoton field? A. Yes.

Q. Is there not a relationship between price of gas and the volumes of casing-head gas which a gatherer can afford to extend his gathering system to collect—

MR. McALLISTER: May I hear that question, please, Mr. Examiner.

PRESIDING EXAMINER: Read the question.

(Last question read by the reporter.)

THE WITNESS: Very definitely. There is still a great deal of casing-head gas being flared in Texas that we hope to see utilized some day. At the present time, price for gas does not permit laying the gathering lines and compressor plants and processing plants and treating plants to handle that gas, and a lot of the casing-head gas conservation projects now in operation were built in contemplation of a higher price for gas than then or now prevails. It just seemed inherently sound to anticipate that gas would seek something nearer its level in price as represented by its intrinsic value. I mentioned yesterday its use as a chemical raw material but forgetting all that and just comparing it on a Btu basis with the cheapest of fuel, say, coal, the one of which we have the most abundant resources, and you would presume that gas at the well head would be bound to somewhere approach the

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price of coal at the mine shaft, and so we persuaded a good many companies to put in casing-head gas plants predicting to them that it had to seek its natural level and that even though they'd have to operate at a los for a time that the price would rise to where it would be an economically sound operation.

MR. McALLISTER: Might I ask a question there?

MR. SPARKS: Certainly.

BY MR. McALLISTER:

Q. Do you think the price of gas in the State of Texas should be geared to a price which would be the mine price of coal plus transportation costs to Texas? A. If by geared you mean if some authority regulated it to that, I say no. I think that as long as we have competition between the various sources of energy and competition within those sources that there oughtn't to be any gearing by any authority, that it ought to — supply and demand ought to— work those things out. That is a theory of mine. I believe in that system of economics, not so much because of the danger to the form of government when you have too much government control, I fear that danger, but also looking only to the welfare of the consumer. My philosophy of an economic system is one which does the greatest good for the greatest number. Therein, I wouldn't differ from a communist, I guess, but my practical observation as

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an engineer has convinced me that under the capitalistic system you get the greatest good for the greatest number

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and therefore if the communist was sincere in his alleged objectives and would look at the results with realism, compare what happens in his nationalized countries with what happens in a free enterprise, just for the common working man, I think we'd both conclude inevitably that you get the most good, and I am such a fanatic on the subject of conservation and so steeped in its meaning to the national welfare that although I would be appalled at the system of political doctorate that would give control to our federal resources, I would agree with that if in the long run it would give more to the public, but my studies have so firmly convinced me that only by having a minimum but a necessary amount of regulation by federal and state authorities and having a maximum of free enterprise, if it gets too much the price is low and if it gets scarce the price is high and that stimulates them to go get more, that is the only way in the history of the petroleum development of the world that any success has been attained.

I made yesterday a statement in serious conflict with the philosophy of a number of people in Texas and possibly in conflict with what may turn out to be the philosophy of our state legislature. I said yesterday that there is a relationship, in answer to Mr. Sparks, there is a relationship

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between price of gas and conservation. Come future years we would have paid many times what would have been required for recovery now, we would have been glad to pay many times that, but it is gone and doesn't do any good. I still don't want us to have the responsibility and short

of gearing gas price to any arbitrary standard. I just want to see it worked out, although it is sometimes kind of impatient to sit back and see the waste taking place while it is working out, but I think that will be the best results for the consuming public in the long run.

BY MR. McALLISTER:

Q. When you speak of competition between fuels, you mean your conclusion is based upon the assumption that there is the opportunity for that free competition? A. Yes. I hate to see gas burned for what to me as an engineer and a little smattering of its chemistry tells me is inferior uses. I hate to see gas burned where coal would do just as well.

Q. Under boilers and just, you might say, used in a line in some slack period of the year? A. That is right, I hate to see that.

Q. So do I. A. But I feel it would be more dangerous to say you can't burn it under a boiler if they can get it cheaper than they can coal or rather use it, it seems to me that

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intrinsic worth in a free competitive system is going to work the thing out better than any controlling board.

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[3704]

Examination by Mr. Sparks

Q. From your knowledge and information as a Railroad Commissioner and knowledge of the industry, is it your judgment that there is competition among the producers and gatherers of

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gas?

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THE WITNESS: Well, broadly speaking I'd say very definitely competition existed. There are thousands of producing gas wells, many hundreds of different operators of gas, that they are going to sell to the—take the best offer made to them by a purchaser of gas. In turn, the purchaser has all these sources of gas to look to, and he is going to buy his gas presumably where he can get the best supply over the longest period of time at the cheapest price.

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[3717]

Examination by Mr. Crenshaw

Q. Mr. Murray, you have already testified to the expense, the high expense that entails to conduct processing plants and gathering systems in order to utilize casing head gas in the production of oil. Is it so or not that the taking of natural gas or dry gas as compared to the processing and constructing of plants and so forth to market casing-head gas is cheaper. A. Whether taking of gas from natural gas wells is cheaper than gathering casing-head gas?

Q. Yes. A. That is a dangerous question to answer generally, but to answer it generally I believe I'd say yes. In general, it is cheaper to take gas from a gas well than to utilize casing-head gas. There is no question in general that is true.

Q. Based upon that general conclusion with reference to the relative cost of this processing and producing. I'll

ask you this question. Assume that a producer in a field is producing both oil and gas and that he has been flaring his casing-head gas in the production of oil— A. (Interrupting.) Excuse me, he is producing oil,

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casing head gas with the oil, and in addition is producing gas from gas wells?

Q. That is correct. And that you see fit, with a hearing, after hearing, to order the ceasing of the flaring of the gas or shutting down of the oil well. In other words, you tell him to utilize the gas, casing-head gas, which has been flared, and as a result of that order and in compliance there with the producer then invests whatever sums of money it may be to utilize the casing-head gas and put it on the market, so that when he gets done with that process, under your previous testimony where you said that the casing-head gas must receive the first call, he then puts together with his natural gas production the casing-head gas and fills his market demand. With that picture and assuming those facts, let us further assume that the Federal Power Commission steps in and declares that this producer is a natural gas company and as such it then follows through with a regulatory order regulating the price of gas downward. Under those circumstances and assuming those facts, I'll ask you to state if you have an opinion as to whether or not that producer would then find it more economically feasible to take wholly or solely from his natural gas wells and discontinue the taking of casing-head gas.

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THE WITNESS: Possibly by answering this question I can avoid some of the basis of objection.

If the price of gas were lower—I'm making no assumption as to how it would come about—it could well result in it being impossible to go to the expense of gathering from each oil well its casing-head gas, collecting it, treating it, possibly sweetening it, compressing it, delivering it to a pipe line, and so we would see turned backward the thing I mentioned yesterday has evolved forward during the last few years when all of the casing-head gas was wasted and as the price of gas rose and as we were able to issue orders and have them sustained in the Courts, the Courts have pretty clearly indicated that the only reason they have sustained us was because the price apparently would reach a level where it would be economically sound, so the reverse could happen just as well. If anything reduces the

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price of gas then it inevitably follows we must go back to periods of wasting large quantities of casing-head gas. I haven't made any assumption as to whether the Federal Power Commission would do that or not. You all are more versed in these things than I. It is difficult to conceive of any regulatory body being concerned about the welfare of the public over the period of years, it is difficult for me to conceive of action, taken which would necessitate the wastage of large quantities of gas simply in order to realize temporarily a small percentage reduction in the retail

price of gas, which could result with the exhaustion of the supplies and a manyfold increase in price in years to come.

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BY MR. McALLISTER:

Q. You said to reduce the price. Supposing the price in a particular instance was 12 cents and it was reduced to 11-1/2 cents, which would still be the highest price in the field, your answer wouldn't apply to a case like that? A. No.

Q. You were thinking of unduly depressed? A. I think we would lose our authority to require the gas to be saved. I'm speaking now only of casing-head gas, at the point when a reasonable return was not realized on that operation.

Q. You weren't speaking of the price levels that would go beyond that limitation? A. That is right.

BY MR. CRENSHAW:

Q: In other words, Mr. Murray, having issued the flare gas order after a consideration that to do so would cause waste, then would it not be that under the circumstances related in the question that if the producer could not comply with that

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order as a result of having been regulated by some outside agency that that would materially interfere with your conservation problems? A. Yes.

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Examination by Mr. Sparks

Q. Mr. Murray, over the past 10 years have you observed, and particularly since 1945, I understand you have been on the Railroad Commission since 1945, is that right? A. '47.

Q. '47. You have been, prior to that time, familiar with the oil and gas industry? A. Reasonably.

Q. And you have observed from the statistics of the Commission a general increase in the price of gas over the past 10 years, have you not? A. I have observed a general increase in price of gas, not from the statistics of the Commission, because we don't keep statistics on that phase of it, but I am generally acquainted with the rise in price of gas.

BY MR. McALLISTER:

Q. It may not run back 10 years? A. Sir?

Q. It may not go back as far as 10 years?

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A. My observation in?

Q. No, I mean the trend. A. No, the trend upwards you mean, I guess?

Q. Yes, the trend upward. A. No, there have been ups and downs. I fear my answer was not very lucid there. I have generally observed the trend of price of gas over the period of the last 10 years, ups and downs. For the last several years it has been predominantly upward. You can back up more than 10 years. It is quite interesting how much cheaper the price of gas was in, say, industrial sales in certain areas of Texas, oh, say, in the middle 1940's

than it had been 15 or 20 years earlier. Instead of going up it had been declining. I have quite a bit of statistics on that, but I don't see its relevance here.

BY MR. SPARKS:

Q. And has any of the conservation measures of the Railroad Commission been made practicable because of the increased value of gas, particularly casing-head gas, over the past few years? A. Oh, yes.

MR. McALLISTER: Do you use the word value there synonymous with selling price?

MR. SPARKS: Certainly.

THE WITNESS: I say the value of gas is basically the same or increases as new discoveries are made, but I sometimes make

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a distinction, possibly not one valid here, between intrinsic value and going price.

BY MR. SPARKS:

Q. I was using value in the sense of price. A. And I answered it on that assumption.

Q. In your opinion will future conservation measures of the Railroad Commission be affected by the price of natural gas? A. Yes. I didn't elaborate on that, because I presume my previous answers would indicate my reason for answering in the affirmative.

Q. Can you elaborate here with regard to future conservation measures which in your judgment will be effected by price? A. We are still flaring a lot of casing-head gas, I am possibly repeating myself, that we cannot now require to be saved because it is not economically sound to do it.

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When the price of gas goes up, each time it goes up it brings in more gas that we can save. That is casing-head gas. Also I have discussed here earlier this matter of the loss of gas from a gas reservoir, and as the price goes up it will be possible to do more and more things to increase the recovery of gas, to get that gas that we are now leaving behind. I don't mean about surface flaring, I mean underground loss of gas.

Q. Underground wasteage through failure to produce it because it is uneconomical to make the expenditures necessary to produce it?

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A. That is correct. One of your earlier questions might indicate that I haven't been sufficiently clearing in stating that if you leave gas behind in a reservoir when you abandon it, that is just as bad as flaring it to the air.

Q. It is just as gone? A. It is just as gone, yes, sir, and someone could come back and say, oh, you didn't waste it, you know where it is, it is down there, but if it would cost you several times as much as to go down and redrill the field to try and get it out as it would be worth, then you might as well let it go to the air.

Q. The price would have to be tremendously increased to warrant going back into the field once it had been abandoned— A. That is right.

Q. And attempting to produce the gas left there underground? A. That is correct. And I would consider—now, this is probably not a legal definition that would stand up —as an engineer I consider as wasteful to fail to recover

something that you can now for a few cents more per thousand, even though you come back and get it later on for tens of cents per thousand, then I consider that difference in what it costs you to get it as waste. If you can get it now for three or four or five cents more a thousand and it is going to cost you 25 cents a thousand to come back and get it later, legally it might be argued that

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that wasn't waste, you got it but if it costs you 25 cents later to get it where you could have gotten it for five or less cents today I call that waste.

MR. McALLISTER: Could I ask one question there, just one question, a short one?

MR. SPARKS: All right. Just out of courtesy, Mr. McAllister I'll willingly accede.

BY MR. McALLISTER:

Q. Here is a field with abundant reservoir, let's say a trillion cubic feet, where the local sale price to carbon black plants and wholly within the state is five cents, the prevailing price in that field, with ample connections and reasonable outlets. A. This is sweet gas?

Q. Sweet gas, gas well gas. A. Excuse my interruption, but we wouldn't permit—that is not permitted to be sold for carbon black.

Q. I see. I got trapped myself. Let's make it sour gas just so I can go on. It doesn't make any difference what it is? A. If you will specifically make your illustration in the Panhandle field, then it would apply. We have a funny set of laws there. We don't—

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Q. (Interrupting.) Let's make it in the Panhandle field and it will be sour gas and say a trillion feet which makes a substantial reservoir, and adjacent to that is another field

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that has pretty well, let us say, petered out, where no part of that gas can reasonably be produced and gathered and sold with any substantial profit for five cents, and this gas which is abundant can be sold. Now, would you suggest that the gas from the abundant field be raised in price to, say, ten cents or whatever would be necessary in order to permit the operators over in the other field to produce their gas and compete with the other field or would it be more economical to say that those operators in that field may have ten cents which would cut them out by reason of competition. Just how in your conservation problem are you going to meet that situation wholly within the State of Texas, forgetting about any gas on the outside, going to the outside? A. Well, my philosophy has been, I indicated yesterday about our refusal to take jurisdiction that it has been argued we have, over setting a minimum price. It has been argued that we already possess the authority to fix a minimum price, because if it is lower than that it is going to cause waste, and there is strong basis for such argument, but the Texas Railroad Commission—I don't mean to take issue with the wisdom of states which have done it, or I certainly don't mean to challenge our legislature if they clearly say this is our responsibility and duty, but even though we argue the arguments on fixing prices, I say we would just stay out of that, and we want

to get in and help all we can to attain conservation but we didn't want to go

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to the point of saying, now, the price of gas in this near-exhausted field you were talking about, it is going to have to be 25 cents a thousand because that is what it will take to recover it. Well, heck, that is more than the going price of gas and to me that wouldn't be conservation to allow them a price in order to gather that gas that is going to be more than it is currently worth in the open market. If we were trying to fix price purely on the basis of cost, I'm afraid we'd just get hopelessly lost in a maze of situation there and we'd be fixing price up higher than anybody would pay for it. We'd have to order somebody to buy it, I guess, if we are going to set the price up to 25 cents and yet that might be required to conserve this gas, so all we would do from the standpoint of the philosophy of the Railroad Commission, we'd just stay out of price and we'd hope the price would be high enough to permit these reasonable things in conservation to be done. As it gets higher and higher more and more things can be done in conservation and in turn as more and more things are being done in conservation we save gas being wasted and make it available to the market, we are doing three billion feet of that a day in Texas and as the price gets higher and higher, the fellows are encouraged to drill for wells. Instead of passing up gas strata they complete gas wells and that in turn makes a greater supply available and that in turn forces the price back down. In fact, that is our theory of the only way of keeping a

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reasonable price of gas through the years is to have it high enough that it furnishes an incentive to conserve and explore for it and that is the surest way of, one, having abundant supply, and two, keeping the price reasonable.

Q. Conservation and price go hand in hand and the price isn't the determining factor that is going to control conservation? A. Yes, it controls a great deal of conservation, but, and I don't mean to retract—

Q. (Interrupting.) I mean there are a lot of other factors. A. Yes. I don't mean to retract any of the statements I made of how closely geared conservation measure you could take was to the price. On the other hand I made that statement, I believe, in answer to questions by Mr. Sparks. On the other hand, I will say that our Railroad Commission takes a peculiar philosophy that even though we are the conservation agent we don't go out and try to control price.

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Q. You mean the higher the price goes the more you can conserve? A. That is right. The more exploration there will be for us, the more abundant will be the supply and that, of course, will bring the price back down.

Q. If it was a dollar per Mcf? A. We'd all be drilling for gas. We wouldn't waste a foot of it, and we'd have so much gas that the market would break and the price would come back down. That is our fundamental philosophy in Texas which I recognize is possibly not a commonly accepted philosophy today but we fundamentally

believe that in the long run the consumer will benefit mostly by that policy. Bear in mind, we have had some bitter litigation in Texas. Wherever a company had a monopoly going into a city, they charged whatever they wanted to, the customer had to pay the price or not get any gas, we have gone in and regulated those prices and have had some bitter feuds over it, but on the other hand I mentioned earlier the matter of industrial prices because competition existed, we haven't taken jurisdiction. I could cite a case, say, in Houston there where in the '20's request was made for the Railroad Commission to assume jurisdiction over the price of gas sold to industries and the Commission refused to do so. I may be a little wrong in my dates, the late '20's,

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I believe it was. In the middle '40's the price of gas, even though no jurisdiction had ever been assumed, nobody ever regulated it, the price of gas—and the general trend, market index had been going upward—the price of gas to those same industries was considerably less than a half of what it had been fifteen or twenty years earlier. Competition had been what had cut it.

BY MR. McALLISTER:

Q. On these long pipe lines going to outside states where if it is true a monopoly exists, you would feel, I think, from the answers you have made, that regulation is desirable?

MR. SPARKS: Of whom?

MR. McALLISTER: Regulations.

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MR. SPARKS: Of whom, the pipe lines?

MR. McALLISTER: The pipe line company.

THE WITNESS: I might not say desirable, but I would say essential.

BY MR. McALLISTER:

Q. Yes. A. Wherever we move in and issue orders, we don't consider that that is particularly desirable, but that is the only way of attaining the necessary objective in the public interest.

Q. That is right.

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A. And so we never glorify in our authority to do such and such a thing. We would rather that natural forces would work it out so it wasn't necessary. And if it were possible to have enough of these long pipe lines, if you didn't have to build them so big and have so much money invested in them, if you could have enough of them, then I'd say regulation wasn't desirable, let them compete with one another, but that isn't desirable, and if it isn't desirable it becomes necessary. Our theory down here, the producer—the regulatory authority ought to see that pipe lines is taking advantage of the best he can get from the producer. If some producer will sell him gas cheap, why, by golly, go out and take it, but not to regulate the producer of gas.

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A. All right, twenty-five years. I doubt if Phillips says we hereby dedicate our reserves, they just sign a con-

tract tying their reserves up, and so out of that comes the term dedicated which simply means it is contracted for. I presume the escalator clause on the price was in that contract that committed those reserves for twenty-five years and if Michigan-Wisconsin could have gotten better prices

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for gas and tied it up that many years somewhere else they were perfectly free to do it and that the Federal Power Commission had full knowledge in advance before they ever granted this certificate of convenience and necessity of what those contracts and commitments were, and they could have said then, why, you are committing to Phillips, if the assumption is true, at too high a price, we are not going to approve this thing until you go get reserves dedicated, which means contracted, at a lower price. We have exactly opposite that situation existing in the Carthage Field. Their operators committed or dedicated, using the terminology here, reserves over a long period of time at what has turned out to be a disproportionately low price and on the free market gas in Carthage is bringing a much higher, two and a half to one or more, price to what they committed and they come into the Railroad Commission and say you ought to assume jurisdiction and you ought to make them pay us what the going price for gas is, we may have to do that. I mean the legislature may say that is our duty, but we said we didn't make you sign that contract, your neighbors over here were being drained for a while because they wouldn't sign the contract and they held out, they thought gas was going to

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be worth more. If it had gotten cheaper you would have been sitting in wonderful shape with your contract and your neighbors would have to sell it for less, so we felt that was sort of a free right of the

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purchaser and seller to work this thing out and if Michigan-Wisconsin contracted to Phillips, I don't know the fact and this may be an erroneous assumption, but if they contracted to Phillips in order to get Phillips reserves tied up for twenty-five years and agreed to pay them so much now and raise it so much every year, why, they did that before they ever built the pipe line and the people of Wisconsin and the Federal Power Commission presumably had full knowledge of that, and when they were looking to decide whether or not there were gas reserves down there, they knew what they were going to have to pay for them under that contract and just as we have said to these people in Carthage who have dedicated their reserves and gotten themselves tied up at what they consider a low price for a long period of time, we said, fellows, we didn't make you sign your contract. It looks unfair for everybody around you to be getting more than you, but you signed the contract. Now, if Michigan-Wisconsin signed the contract and agreed to purchase gas, we consider that a sacred deal, too, even though the price may be higher than prevailing. I don't know whether that is true or not.

That is a long winded answer and I apologize for it, but that indicates our philosophy in Texas, why we won't assume jurisdiction in Carthage and make them raise the price, and why we don't think this sacred right of contract

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should be broken if they feel they contracted at too high a price.

BY MR. McALLISTER:

Q. Over in Carthage if the state gives you the authority and you fix the price over there at let's say, six cents or a couple of cents higher than the contract you are talking about, is there any authority in your state which would permit you if this price over here is too high to bring it down to what is a fair price? A. We don't have the first authority now—

Q. (Interrupting.) No, you don't have, but I am assuming you do get it. A. If we got it they might say you can fix it up or down either.

Q. You can only fix a floor, you can't fix a ceiling and a floor both? A. We don't think we can do it at all now—

Q. (Interrupting.) I know that, but suppose you are given authority, the bill is pending in the legislature. A. Frankly, I am embarrassed to admit this, but I haven't read the pending bill, that is an embarrassing thing for a member of the regulatory body to admit, but I wait until they pass them, if they do then read them.

Q. Do you think for the sake of the people of Texas, the producers, you ought to be able to raise the

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price, to fix the floor you might say on the basis of what you term conservation and then there exists no— A. (Interrupting.) Could I answer it part way, the first half, and then I'll answer the second half. I don't think we have

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that authority. You are just talking about fixing a floor. I don't think we have that authority. I don't think we ought to have it. We don't want it. Now, we are in serious disagreement with a lot of sound thinking reasonable people, we recognize, but if it is an honest difference of opinion there is no use dodging it. We don't think we have the authority, even though some have, and briefs can be presented to us as to why we now have the authority, and we don't want it, and we don't think we ought to have it, and we don't think in the long run it is in the best interest of the people of Texas or the nation for us to have that authority, and for that same reason it would be inconsistent, I think, for us to come here and oppose you fixing price on the producer and at the same time seek the rights to fix price ourselves. It possibly would be consistent. We could say this is something the states ought to have and not the Federal Government, but we are doing more than that. We are opposed to the basic principle, rather than who has the authority, state or federal, and this may be a last ditch stand, but we are opposed to price fixing at the producer level.

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Q. But if there is that authority you state given and exercised to fix a floor, isn't it by the same reasoning proper that some authority protect the consuming states so far as the ceiling is concerned? A. I would presume so.

Q. I mean wouldn't that be your judgment? A. Yes, sir.

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Examination by Mr. Sparks

Q. Mr. Murray, the Federal Power Commission has certain powers for requiring a natural gas company, that is, one who is a natural gas company under the Act, to secure a certificate of public convenience and necessity as a condition to the construction and operation of facilities subject to the jurisdiction of the Commission. Now, I am not going to ask you to construe the Natural Gas Act. That is a matter of law—

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A. (Interrupting.) Thank you, sir.

Q. (Continuing.) —and for the purpose of this question, I am going to assume that the Commission does have the power to require those engaged in the gathering and processing of natural gas, if they are natural gas companies, to secure a certificate of convenience and necessity prior to the installation of facilities to gather and process gas. On the basis of that assumption, if it be correct, would the exercise of such power by the Federal Power Commission conflict with the efforts of the Railroad Commission of Texas to conserve natural gas, particularly casing-head gas which the Commission has required in the past in certain cases to be utilized and which the Commission will probably require in the future to be utilized in additional cases.

MR. McALLISTER: I haven't any objection to the question except Mr. Sparks has used the Commission in

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relation to the Federal Power Commission and the Texas Commission. I think may be it is clear.

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PRESIDING EXAMINER: Do you understand the question?

THE WITNESS: I'll have to restate the question as I understood it and see if that is correct and then that possibly would clear up any conflict. I got a little bit lost, but my understanding was you have asked me to assume that the Federal Power Commission has the authority to require a certificate of convenience and necessity before any extension to the gathering facilities of an interstate pipe line can be built.

BY MR. SPARKS:

Q. Or before an extension to the gathering facilities of a gatherer of natural gas. A. I see.

MR. McALLISTER: Why can't we define those facilities, just say all facilities, pipe line, gasoline plants and what-not?

THE WITNESS: Let me try it this way, if the Railroad Commission of Texas issues an order requiring certain casing-head gas to be utilized and if the nearest pipe line to that field where the gas is now being flared and we are ordering it to be utilized is a pipe line under the authority of the Federal Power Commission, and I haven't said what it was there, assuming

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it is under the authority, and if the Federal Power Commission has to grant a certificate of convenience and neces-

sity before this pipe line can comply with the Railroad Commission's order and take the casing-head gas, would that be a conflict. That is my general understanding of the tenure of the question, is that substantially correct?

BY MR. SPARKS:

Q. If it would require a certificate of public convenience and necessity from the Federal Power Commission to gather and whatever else was required to process the gas— A. (Interrupting.) There would exist a conflict—well, I am about to say there would be a conflict if a conflict existed, which isn't a very sensible answer, but if anything interfered with our authority to get that gas that is being wasted utilized, then it would be a conflict, and if the company we were ordering to take that gas would say, no, I can't do it, I've got to get a certificate of convenience and necessity from the Federal Power Commission, why, then there would be a conflict.

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[3747-3748]

Q. (Interrupting.) Let's assume there is gas flared in the field. A. All right.

Q. And that to get that gas to the gasoline plant would require the laying of additional gathering lines or perhaps the construction of an entire gathering system— A. (Interrupting.) That is very commonly the case.

Q. Certainly. Now, in such a case, if it were necessary to secure a certificate of public convenience and necessity from the Federal Power Commission before that gathering system could either be extended or constructed, then would not that interfere with the orders and carrying out, your

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seeing to the performance of the order, that the gas not be flared? A. Very definitely. If anything kept us from requiring the gathering system to be built, these wells where the gas, oil wells where the gas, is being flared, from being connected to a processing plant and it in turn being put in a pipe line, anything that interfered with our doing that would be a conflict with what we presume to be our exclusive field of authority and

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would be in conflict with the attainment of conservation.

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Q. Even if the Federal Power Commission in such a case should grant to the gatherer a certificate of public convenience and necessity, if an appreciable time were consumed in the securing of such a certificate by the gatherer, would not that contribute to waste and conflict with your enforcement of your order? A. Yes, if we issued, say, now, we issued the order today and it would be effective July 1, that you have to have this gas being utilized or maybe I'd better say August 1 or September 1—

Q. (Interrupting.) You have issued them on shorter notice than that? A. Oh, yes, we sure have.

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Q. Considerably shorter? A. That is right.

BY MR. McALLISTER:

Q. And longer? A. That is right.

BY MR. SPARKS:

Q. Some 17 of them on two weeks notice, I might

state. A. Well, we considered we had given them quite a bit of advance notice, although frankly I did take issue with my colleagues, I wanted to give more time interval. My colleagues took the position we had been holding hearings over a year's period of time and they didn't need any more warning. If we order on a certain date, soon or far off and that date comes around for compliance with our order and the Federal Power Commission hasn't yet given authority for the construction of these lines, then we have reached an impasse and have a conflict.

PRESIDING EXAMINER: Have you had any such instances so far?

THE WITNESS: Not to my knowledge.

BY MR. SPARKS:

Q. To your knowledge has the Federal Power Commission ever taken jurisdiction over a producer and gatherer of gas? A. No.

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Q. I believe you stated that under proration of gas, where the indicated market demand from the fields was prorated among all of the wells in the field, on a proration formula adopted by the Railroad Commission and calculated to equitably distribute

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that allowable among all the wells, that if there were more than two or more than one takers of gas from the field it would be a remarkable coincidence for any of the nomi-

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nators of gas to have allowables assigned to the wells connected to that particular company's pipe lines which would equal, exactly equal, its own market demand. Do you recall that testimony? A. Yes, I so stated, and I think Mr. Baumel more adequately explained that fact yesterday.

Q. That is right. And in such cases ordinarily a particular taker either is connected to wells which have allowable assigned to them, which either is in excess of or less than the market demand of that particular taker of gas? A. That is correct.

Q. With the result that under proration in order for each taker to have such supplies of gas to satisfy his market demands over a period of time, which, of course, takes into consideration the possibility of overproduction for a short period of time, it is necessary that there be interconnections so that those who are short on allowable can receive the gas of those takers whose connections are long on allowable, isn't that right? A. Yes. That is true today, and it is going to become more and more—I was going to say more true, that is poor philosophy—it will be necessary to have a greater freedom of interchange in the future than exists even today and eventually

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it will have to come to the point as now exists with oil, where no company is able to produce or gathers from its own connections just what its demand is, but there is a free exchange between the different companies. The oil is all at the same price, the same grade of oil, and they are not worried about whether it moves into intra or inter-

state commerce, so they just swap it back and forth freely and that is very essential and it is going to have to become essential in the gas industry.

Q. Has the Railroad Commission of Texas found that producers and gatherers who do not operate these long interstate pipe lines have been reluctant to sell their excess allowable in such cases to the interstate pipe line companies which were short on allowable? A. Oh, very definitely. I mentioned that yesterday, I think.

Q. In your opinion, if it is ultimately held that producers and gatherers of natural gas who sell such gas to the interstate pipe lines are natural gas companies and their contract sale prices are subject to regulation by the Federal Power Commission, will the Commission's difficulties in inducing such producers and gatherers to interconnect so that the pipe line companies who are short on allowable will receive their proportionate part of the total market demand from the field be increased?

MR. McALLISTER: I object, Mr. Examiner, there is no

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testimony here that the Railroad Commission of Texas has or exercised authority to require those companies to interconnect.

PRESIDING EXAMINER: Well, I think perhaps the question is unfortunately phrased, but I think if the witness understands it he should be permitted to answer.

Do you understand the question, Mr. Murray?

THE WITNESS: Might I ask the reporter to read it back to me, please?

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PRESIDING EXAMINER: Yes, read the question.

(The question was read by the reporter.)

THE WITNESS: I believe I understand it.

PRESIDING EXAMINER: All right.

THE WITNESS: Yes, the difficulty would greatly be increased. I have previously stated that there was a considerable reluctance on the part of some and outright refusal on the part of other companies to tie into any pipe line that was under the jurisdiction of the Federal Power Commission for fear that by tying in they themselves might be subjected to the control of the Federal Power Commission.

To me, possibly I was naive in that, but it has been very real to these companies and it has been a very definite barrier, as I think I pointed out yesterday, to attainment of conservation and to the attainment of equitable correlative withdrawals between various wells in a field and various fields. If the presumption you made should become an actuality, then what I

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have felt was an unnecessary fear would become a reality then and they wouldn't be scared of what might happen, they'll be dreadfully afraid of what has happened. On the other hand—this is not responsive to your question, but if I am permitted to volunteer this statement—I feel, and this may be wishful thinking, but I feel that there likely will come from the Federal Power Commission, maybe as a result of this case, a refusal to move in and take control of certain fields that they may feel belong exclusively to

the Railroad Commission. I wishfully think, but I think there is a very strong probability that out of this very case may come a relief from those fears that is such a handicap for the attainment of conservation today. The Commission may clearly say we are not going to take jurisdiction of certain things or Phillips or something like that, and repeatedly I have been asked about whether or not conflict exists or could exist and under the assumptions it would very definitely exist, but I by no means feel that it is necesary that there be conflict between the Federal Power Commission and the Railroad Commission nor do I believe that when we have a clearer understanding of these things a conflict will exist and that instead we will cooperate and work together as partners on these matters.

BY MR. SPARKS:

Q. Do you mean that if the Federal Power Commission takes jursdiction over Phillips Petroleum Company as a natural gas

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company and over other producers and gatherers and regulates their sale prices insofar as their sales are made to interstate pipe line companies, that it will not have any effect on our —A. (Interrupting.) Oh, by no means.

Q. Conservation program. A. By no means, but the Federal Power Commission hasn't said they are going to take jurisdiction of Phillips, have they? They are simply holding an inquiry. We have this thing happen on railroad hearings constantly. We set a matter down for hearing and panic exists amont the industry. Simply because we are holding a hearing on the subject doesn't mean we are

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going to do it. It means we are simply making an inquiry into it. The things they get panic stricken we are going to do, as soon as we develop the hearing, we relieve their fear. I sort of feel that that is what is going to come of this. I share the concern that if things that the Federal Power Commission is inquiring into became an actuality, I realize a conflict would exist, and in answer to your question, and I have drifted away from it, very definitely, I can be specific, if the Federal Power Commission should take jurisdiction over Phillips, it would prove the point that these companies have been alleging fear before, it would prove us of the Railroad Commission wrong, and we'd find it next to impossible to get further conservation measures, where we needed to put gas into interstate pipe lines, but I don't consider that an actuality and to me it may be

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you will say it is wishful thinking—I don't believe that out of this hearing will develop a thing that will interfere with the authority of the Railroad Commission.

Q. I don't either, Mr. Murray, but I just want to be sure that your statement of what you thought was going to exist was predicated on that— A. (Interrupting.) I hope my statements were clear there.

Q. Your last statement makes it clear. A. To repeat now and this supersedes all my other answers, specifically to your question, the answer is yes, it would create a great deal of additional concern and interfere gravely with our ability to get flare gas utilized and with our ability to

provide for ratable take from all wells and all fields alike. Did that finally specifically answer your question?

Q. Yes, sir.

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[3758]

MR. McALLISTER: The authority to fix the price to protect producers ought there not also be an authority to regulate the price, a maximum price, for the production of consumers in consuming states. I think that is the question I put to you.

THE WITNESS: That was my understanding, if you are going to set a minimum price, shouldn't you also set a maximum price.

MR. McALLISTER: I mean the authority exists when the necessity arises to protect the consumers in consuming states.

THE WITNESS: My answer was I didn't think we now had the authority, we meaning the Railroad Commission of Texas, now have the authority or should have the or desire it, that if we are given that authority, I would have no idea as to what other authority would tie in with it and responsibility, but in my own opinion I agree with counsel that if it is reasonable to set a

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minimum price it would be reasonable to set a maximum price.

MR. McALLISTER: That is exactly what I understood you to say before.

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Cross-Examination by Mr. McAllister

Q. Did I understand you to say this morning, Mr. Murray, that as an abstract proposition if the Federal Power Commission took jurisdiction over Phillips Petroleum Company in any part, that that would interfere with your conservation program in the State of Texas? A. I believe the questions were somewhat more specific than that, and we tried to discuss, based on assumptions, but if specific things occurs and I answered if those specific things ocurred there would be an interference.

Q. Yes, but the mere fact that the Federal Power Commission did find that Phillips Petroleum Company was engaged in the transportation of natural gas in interstate commerce or in the sale of natural gas in interstate commerce, that would not necessarily mean that there would be interference with your conservation laws in any way? A. I don't exactly know what finding that they are a

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natural gas company means or what it would result in but simply making a finding, if it wasn't followed up with some regulations, I wouldn't see—

Q. (Interrupting.) Well, if regulations did follow it would be those regulations in specific instances that would bring about or work the conflict, let's call it, with your conservation authority, and the exercise of that authority? A. That is correct. It would be the specific regulation. Now, it is difficult for me, and I readily want to admit that I

am not acquainted with just what is involved in declaring the company a natural gas company, but it is difficult for me to understand why the Federal Power Commission would have any desire, if they do, and I certainly recognize or so understanding that they have officially indicated no desire, they are just having a hearing to go into the matter—

Q. (Interrupting.) Yes. —but I cannot understand why they would ever take jurisdiction, except in anticipation of issuing certain regulations.

Q. That is right. A. And the only regulations I can conceive of would result in actions that would be in conflict. Now, maybe—

Q. (Interrupting.) You think that? You think there would be that conflict? A. I may be completely in error. None of the types of

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regulations that we have discussed might result, but knowing no more about the Federal Power Commission's intentions or responsibilities than I do, my presumption has been and it is purely a presumption that if they did take jurisdiction it would be for the purpose of issuing regulations of the sort that have been described to me in these questions, and if those regulations of that sort were issued, I do believe that conflict would result.

Q. In other words, your answers were not general answers but the specific answers to the questions you had before you at the time you made your answer? A. Yes, sir; even though they were making specific assumptions,

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they were still rather general, but not so general as to say if the Federal Power Commission takes any jurisdiction over Phillips would a conflict result, and I never did intend to say any jurisdiction would result.

Q. You mean any conflict would result? A. That is right, if they took any jurisdiction, but I can't quite conceive, I may be in error, of what jurisdiction they would take over Phillips without conflict resulting.

Q. Are you familiar with the Canadian River Gas Company at all? A. I am familiar to some extent, not intimately.

Q. You know that they produce gas, do you not? A. Yes.

Q. Large volumes of gas? A. Yes.

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Q. And they operate gasoline plants? A. Yes.

Q. And they have gathering systems? A. Yes.

Q. And they operate under your proration law? A. Well, they try not to. They have a suit on with us right now saying we are above any proration order issued.

Q. But you did exercise authority over them and did force them in 1949 and '50 to close in wells? A. Yes, sir.

Q. And— A. (Interrupting.) No, excuse me, we didn't force them to close in wells, I don't believe. We prevented them from getting all the gas they wanted to get from the wells.

Q. There may have been some wells closed in, you don't mean to say there were no wells closed in during that time during the period?

MR. BAUMEL: Not under the Commission's orders.

BY MR. McALLISTER:

Q. Well, you closed them down and required them not to exceed the maximum you fixed? A. We fixed an allowable which was less than the amount they wanted to produce.

Q. And they observed that rule? A. So far.

[3766]

Q. So far? A. Yes, sir. I mentioned that yesterday. They went into federal court and then they filed it in district court and I am not exactly acquainted with where the case is now.

Q. I mean to say you know that Canadian River is a natural gas company under the jurisdiction of the Federal Power Commission, is it not, and has been for a number of years? A. That is my understanding. I understand they have a long interstate pipe line.

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Q. I mean to say now, the next question is has there been any interference by the Federal Power Commission which impaired your ability to conserve or enforce your conservation laws by reason of the fact that they had jurisdiction over Canadian River?

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A. Well, it hasn't been realized, but it has been alleged and we seriously concerned ourselves about our authority

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to do what we thought was necessary to preserve equity in the Panhandle. We waited a long time, I don't know whether that is a fair answer or not, because the thing is still under litigation, but we were told and we worried a lot about it, whether or not there was interference that has been realized, I can't say there has been any.

Q. The position taken was by the gas company, by Canadian River? A. Primarily, yes.

Q. Well, and who else? A. Well, producers and counsel would come—now, we just are worried about your authority and all like that. I am possibly answering out of turn. You get a lot of friends of yours coming in and advising you on things that are not supposed to be related to the particular company in question, and we had other people who said, look, I'm just a bystander and you are going to run into this, that and the other, and we were not sure they were doing that for Canadian River or on their own, but other people were counseling with us as to what our authority might be, not Federal authority.

Q. But the Federal Power Commission did not at any time

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intervene in the case or question your authority to do what you did? A. Not to my knowledge.

Q. Well, you would know if they had? A. I believe I would.

Q. And your primary order which was in question was the establishment or proration and limitation upon Canadian River as to the volume of gas they could produce

from their then existing wells, isn't that right? A. That is correct, yes, sir.

Q. That is the genesis of all your conservation authority, isn't it? There is a lot of exceptions but that ability to control production is the basic root which supports your efforts to conserve gas and oil? A. If I understand the ramifications, I could say yes.

Q. Well, of course, there is the other thing about physically blowing it in the air, that is another one? A. You are simply saying that that is one of our principal tools for exercising our conservation authority and that is to control production. It is not the only one, we both agree but it is a major one.

Q. Isn't it a basic and fundamental one? A. I would think so. It is certainly one of the most basic ones and I think of none at the present that is more basic.

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Q. Another one would be, if there is another one of equal magnitude, it would be your power and authority to prohibit production of oil or gas or oil and gas if the product is not for some useful purpose? A. Yes.

Q. The Panhandle Eastern Pipe Line Company operates a number of wells and produces gas in the State of Texas, does it not? A. Yes.

Q. And that you know also is a natural gas company? A. So I have understood.

Q. And there has been no time when the exercise of authority by the Federal Power Commission over Panhandle has interfered with your conservation authority in

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the State of Texas, has it? A. Not to my knowledge, and I believe I'd have knowledge if it had.

Q. And Panhandle, in the course of their operations, must produce the gas from the wells it operates and gather it into its lines? A. Yes.

Q. The Cities Service Gas Company also operates certain gas wells in the State of Texas, does it not? A. Yes.

Q. And it also gathers that gas and brings it into its lines, does it not?

[3771]

A. Yes.

Q. Do you know of any instance where the fact that they are well, I should ask the other question. You know they are a natural gas company under the jurisdiction of the Federal Power Commission do you not? A. I'd have to honestly say no I don't. It probably should be a matter of knowledge of, but I just haven't had occasion to inquire into it.

Q. Well, I can state affirmatively that they are— A. (Interrupting.) I have no question of it. You asked me did I know it and I had to honestly say no.

Q. Well, it is supported by decisions of the Federal Power Commission and the Supreme Court of the United States. And the exercise by the Federal Power Commission of its authority over Cities Service Gas Company as a natural gas company has not, has it, interfered with the full exercise by you of your conservation powers and authority in the State of Texas? A. You know, there are different Cities Service companies, and I don't—

Q. (Interrupting.) Well, this is the gas company, there is Cities Service Oil and Gas companies. A. Do you have authority over the Cities Service Oil Company?

Q. Not that I know of. A. That is the one I know most about and I have never run into anything where the Federal Power Commission had exercised

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their authority. It would perhaps be helpful for me to admit my limitation of knowledge. I am reasonably conversant with companies operating over the State of Texas but my knowledge in the Panhandle is most limited, and unfortunately, I guess, that is where knowledge is being most needed, but if you would question me relative to some of the pipe lines going out of East Texas and Gulf Coast and South Texas, I believe I have a better knowledge there. It is unfortunate that I have never worked in the Panhandle. Most of that was developed years ago before I worked for the Commission or came to the Commission, and I just knew the Canadian River and Panhandle Eastern were all gas companies for a long time, but we have never had any real issues up there and where I am more conversant, if you could illustrate the point of something that is taking place in Carthage and some of the fields along in there, I possibly would be better qualified to answer.

Q. I mean the application of the law in East Texas would not be any different— A. (Interrupting.) I wouldn't think so, and I have a better knowledge of the situation. It would make no difference except I wanted to admit my embarrassment at not being better acquainted with the Panhandle companies.

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Q. Are you familiar with the Lone Star Gas Company? A. Reasonably.

Q. You are familiar with the fact that they operate

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gasoline plants, are you not, for processing the gas? A. Yes.

Q. And that they have a gathering system by which they collected gas for processing in these plants? A. Yes.

Q. Are you familiar with the fact that the Lone Star Gas Company is a natural gas company under the jurisdiction of the Federal Power Commission? A. Yes.

Q. Has the exercise of that authority by the Federal Power Commission over Lone Star Gas Company in any way interfered with the efforts of the Railroad Commission of the State of Texas to enforce its conservation laws and authority? A. No, and to my knowledge the Federal Power Commission has never exercised authority down to the field of production. Now, I think that Lone Star, there is a separate production company. If they have production it is called Lone Star Producing Company or something like that. Do you exercise jurisdiction over Lone Star Producing Company?

Q. I don't think so. A. There is where my knowledge of production—there has never been any interference and I have never presumed that in the field or production that the Federal Power Commission assumed any jurisdiction.

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Q. If with respect to Lone Star Gas Company, Panhandle Eastern Pipe Line Company, Cities Service Gas

Company and other—well, those three, there could be others, but I'm not going to

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name them, if with respect to those companies which are natural gas companies and subject to the jurisdiction of the Federal Power Commission, there are also other companies whose operations in part parallel the operations of the three companies which I named, would you say that because they may be doing other things, directly subject to your jurisdiction, that the Federal Power Commission should not exercise jurisdiction over Phillips and other gas companies or petroleum and oil companies, simply because they are under your jurisdiction in one respect but carry on operations parallel to those which are under the jurisdiction of the Federal Power Commission and exercised by the Federal Power Commission in relation to Lone Star, Cities Service, Panhandle.

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A. I am not able to draw the line or have knowledge of whether the parallelism exists or not, but if for example Phillips under its name and identical corporate ownership had a pipe line, we will say, going to Chicago, that portion of their operations consisting of this transmission line taking gas to Chicago, I'd say, would be under, should be under, the jurisdiction of the Federal Power Commission, and that part of their operations which we think of as being their principal operations, I don't attempt to say

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where one starts and the other stops, I am not intimately acquainted with their operations or with the law, but that part of their operations which down in Texas we think of as being the primary function of Phillips, that is, producing, gathering, processing gas, in the state, I'd say ought not to be under the Federal Power Commission's operation. I have assumed something that doesn't exist, but to the extent that the equivalent exists, I would answer your question. If they had a pipe line to Chicago and were engaged primarily in the transportation of gas through it, I'd say that ought to be under the Federal Power Commission. Just like I say that if Lone Star Producing and Lone Star Gas merged, then the Federal Power Commission should continue the same regulations over the merged company that we now enforce and there is no conflict that I know of.

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Q. If the Federal Power Commission has jurisdiction over Lone Star Gas Company in relation to certain of its operations, is there any reason why a like operation on behalf of Phillips should not also be under the jurisdiction of the Federal Power Commission? A. Let me try this answer. I don't ask, the Railroad Commission of Texas doesn't seek, for Phillips to be treated any differently from any other company under similar circumstances. We are not here intervening or whatever we did to get into this case, in behalf of Phillips, and it is not fair to tie Phillips to us or us to Phillips. I imagine we have three or four lawsuits with them going on at the present time, and we

don't stand in identical position here. There is actually probably more parallelism with the position the Federal Power Commission is in and the Railroad Commission, than between the Railroad Commission and Phillips. We are intervening because we object to a principle, not that it has been accomplished or that we have any belief that the Federal Power Commission is going to step in, but we did feel that the time was proper for us to come and voice to you, not that we thought you were threatening to do it, but voice to you, our concern if the

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Federal Power Commission should step into these fields and we are not doing it in behalf of Phillips. We do the same thing in behalf of—if you were trying it on Humble or Magnolia, or the littlest independent, and our position would be the same, and we don't wed ourselves to all the stands Phillips takes and certainly won't feel it fair for them to be in any way held responsible for any statements or admissions I would make or any other witness for the Railroad Commission, so my final answer is, we don't seek for Phillips to be treated any differently from anybody else. We do earnestly hope and trust that the production and gathering of gas in the state will not be subjected to regulations by the Federal Power Commission.

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Q. You said something this morning, Mr. Murray, about the fear and panic that sometimes overcomes individuals

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when a matter is set down for hearing, and at the same time in another connection you stated that there was reluctance and even refusal on the part of some large producers of gas or large—yes, large producers of gas, to make sales or deliveries of gas to an interstate pipe line in the East Texas Field, I think we were talking about at the time. Do you recall that? A. Yes. I didn't intend to be specific as to the field, because that has been true all over the state.

Q. Yes. Well, now, do you believe, as a member of the Railroad Commission, that reluctance or refusal on the part of individuals to make sales should be so considered that it would govern the exercise by the Federal Power Commission of regulatory authority which it has? I mean, in other words, a sitdown strike by the industry should not be a deterrent to the carrying out of obligations established by statutes, should it? A. No, the fact that the fear of Federal Power Commission encroachment causes failure to prevent waste of gas shouldn't, I didn't mean to imply that simply because

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some operators are scared of the Federal Power Commission you ought to just close up shop and not do anything. The question was whether or not this could cause further waste, and I answered in the affirmative that it could, a further encroachment, advancement, extension of the Federal Power Commission authority. I think simply the Federal Power Commission carrying on the functions that are — well, I am about to draw a conclusion myself. I don't mean to do that.

Q. That is all right, go ahead. A. If you carry it on the functions that in my judgment are necessary and needful in the best public interest, there needs to be no conflict with the state regulatory authorities and no reason for this fear we are talking about. I don't expect you, because some people are scared of you, to close up shop. But I did answer in the affirmative that any advancement, any reaching out, to the fields at least in our opinion, the Federal Power Commission, if you should step in that field, which I have no belief you would, then I did agree with the question that it would greatly enhance the fear and greatly interfere with our accomplishment of conservation.

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Q. You do admit and recognize, do you, that gas is on short supply right now in Texas? A. Large quantities of gas conveniently located is definitely on short supply. At least, we've got so very much of it committed, dedicated, to these out of state pipe lines that we can't find it for our industry here in Texas. The legislator made a speech in the Texas legislature last week decrying that situation. Here these industries couldn't find the gas. He said what does our Railroad Commission do? They sit up and look at the window. We were castigated for failing to take a stand. What could we do? Would it do us any good to come up here and protest to the Federal Power Commission or could we issue an order saying don't take the gas out of Texas, we need it here? The only answer I know is let everybody compete for it and if it gets in short supply, the price will go up and that will encourage us to find more of it.

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Q. You admitted there must ultimately be an end to the gas supply? A. There ultimately will be an end to the oil and gas supply. It is a finite quantity. When that end comes depends on the development because up to now we have been hustling and

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and finding reserves by keeping pace with our rate of consumption. If every foot of gas ever to be discovered was now discovered, then we could sit back and say, oh, we'd better lock this up, save it for our needs or Wisconsin's needs or so forth, but we know we'll find a lot more gas, and so the freedom of these companies to get out and hustle on their own and find gas and sell it where they can get the most for it is what makes this economy in America click, and that is how come American companies here have found so much oil and gas and have been the principal cause of finding it abroad, because they were free to work, and you get a condition like you have in Mexico or any other country of the world where you have all these federal regulations and restrictions and you don't find any gas. They fix the price low, but they don't sell any because they don't find any to sell.

That, substantially, is my philosophy on this thing, and I am unpopular in Texas just as I might be unpopular in Washington here, because I take the stand we oughtn't to try to stop this export of gas, even though I possibly have as much vision and have been pointing where our industrial future lay as long as any one. I have been telling what we could do with gas, that Texas could be one of the

most popular states in the nation and could have the brightest industrial future of any area in the world if we do keep our gas, and still I'm sitting looking at the window they say down in Texas while we run this gas up to Detroit and Chicago and Wisconsin. We'll have to go

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pick our fuel up off the prairie some of these days and we'll be a bankrupt state when the gas is going up there, yet I don't know of any way within American system of free enterprise to keep the people of Wisconsin from having our gas when they come down and buy our gas, and I think it is fundamentally wrong for a plant to come down here and want Texas industry and want the gas—by golly they ought to have the right to do it.

Therein is our whole protest on this thing, Texas is a tremendous state and if there is any particular favoritism, any presumption of it, for Phillips, I want to disclaim that. We don't want them to be treated any different from anybody else.

* * *

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Q. And that gas is processed through what plant, the Crane Plant? A. It is the Crane plant, yes, sir. It is the sourest gas we have in Texas, so we are awfully proud to get it utilized.

Q. Yes. The utilization of that gas was made possible primarily by the construction of these interstate pipe lines, is that right? A. I think I can answer yes either way. I was volunteering about McElroy. So if I talk specifically

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about it, there was no other market for gas from McElory, save the

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El Paso Natural, and so if it hadn't been for the El Paso Natural, an interstate pipe line, at this time there would not exist any market for that gas. I want to pay full credit for that, and that same is true of a good deal of the sour casing-head gas that is being utilized in West Texas. El Paso takes a larger percentage of casing-head gas than any other company, and if it were not for that interstate pipe line and for their willingness to take casing-head gas, unless—I mean they did it willingly, we might have done it through order, but if it wasn't for their facilities a lot of the casing-head gas we are currently saving in East Texas, would be still flared. Did I pay good enough tribute there, because I have it in my heart to do it there?

Q. The point I was making was not that the interstate pipe line has any glory coming to it but it is just a question of this casing-head gas finding a market since it must be produced in connection with oil. The point I was making with that generally there was no other market for that gas from the Crane plant, that I know of? A. I know of none either. And that is just as extreme example that I can think of. Some one might say why are you letting all this West Texas casing-head gas go out of the state and clear to California, why didn't you save it for Texas industries. Here is the opposite of

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that argument I was presenting a while ago. That gas was

being flared. So you see, you have to look at this thing from both sides to see the whole picture.

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Q. Is that true? Couldn't you permit the allowables in the Texas-Hugoton without regard to the allowables in other

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gas fields in Texas? Isn't this treated as a separate unit by itself just as if it was a separate state? A. That was the point I tried to make yesterday and this morning and it may have seemed I was going rather far afield in how we did oil. We are headed towards doing the same thing in gas that we do in oil, and have soon, and I'd like to try and give everybody full notice of that, we don't want to suddenly do it, we are trying to do it gradually, very soon we will pay no attention to the demand for a particular field, we'll just add up the total demand for gas from the state and distribute it to all the fields in the state, and the reason I keep coming back to oil, is because you can see in oil what we are going to do in gas, we've got to do in gas.

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BY MR. TULANE:

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Q. At this time, then, you cannot name a field to which Michigan-Wisconsin could go and bargain for eleven billion

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cubic feet of gas? A. You can go to any field and bargain for it. I cannot give you a field where you can get the gas at your price.

Q. Within the realm of economic— A. (Interrupting.) It is economic for you to go over to the Panhandle field. You are right there, adjacent to you.

Q. Is your opinion based on your knowledge that there

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are eleven billion cubic feet of gas a month available there? A. There is a whole lot more gas than that available. I don't know whether you'd get it or somebody else would get it.

Q. Is there that much gas on the market, at the present to be bargained for? A. There is much more than that gas on the market. Now, I don't know whether you'd get it or not. That is where I can't say who is going in this free competition to get the gas. I'll try to answer your question. I can't name, what is it, eleven billion a month, eleven billion in a package that is just sitting there waiting, nobody taking it, just waiting for you to come and ask them would they like to sell it to you. I can name some fields where there is gas that nobody is taking and it wouldn't be practical in my judgment for you to go after it, and I know there is many times eleven billion a month produced in the Panhandle field. That is available to somebody.

Q. Is it not true that the available production down there is all being marketed right now? I am referring specifically to the West Panhandle. A. It is bound to be. That has to follow. That is what we allow to be produced is what is being marketed.

BY MR. SPARKS:

Q. And if the market demand, Mr. Murray, was increased,

[3838]

then the allowables would be increased commensurately, would they not? A. That is right. If you go in and nominate for additional gas in the Texas Panhandle we'll raise the allowables up, but you may not get it. It may go to these other people. We don't say, fellows, you all have to give Michigan-Wisconsin eleven billion feet. We total up what everybody wants and then it is up to everybody to hustle for it to get it. That is a pretty vicious game. This competitive system is pretty hard-boiled, and it kind of works hardships sometimes. Lots of times we think we'd a lot rather have somebody leading us by the hand and telling us what we want and what should be paid for it, but in a free economy it doesn't work out. I take no objection to price controls in a time of emergency like now. I'm ready for them to put price controls on anything. But outside of emergency I don't think anything should be controlled in price where there is freedom of competition for it. I think the consumer benefits mostly there. Did I ever answer your question? No, I do not know where I can guarantee you you could get eleven billion feet of gas, but if you could go into the Panhandle field and show a demand for more gas we would increase the allowable from the Panhandle field but we wouldn't tell anybody that they had to sell it to you.

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[3839]

Q. Then they'd have to build sixty to seventy miles of pipe line of the same type as the one going up north in order to connect that gas? A. Unless other facilities already existed. We have done a lot of assuming. I haven't said we are going to cut you off from the Texas-Hugoton. I don't see why we would presume that, but if the Texas-Hugoton field is producing more gas than it can produce without wasting, or if it is producing more than the fair share of the total market and because Texas-Hugoton is producing so much there is gas being flared elsewhere in the state that could reasonably be made available to the market—remember, we had an illustration a while ago of Company A, and Producer B. Company A was flaring the gas and the purchaser was taking the gas well gas from the field. I said we could cut down on the gas well gas production so that they'd have to take this flare gas and if this doesn't exist, the whole situation of any trouble, then, with regard to this is an assumption. If there were an oil field right close at hand where a lot of gas was being flared, casing-head gas, and because you preferred to get your gas from Phillips in Texas-Hugoton and Phillips preferred to sell you their Texas-Hugoton gas instead of flaring gas over here, we'd step in and say you can't take it out of Texas-Hugoton. I have amply, to the best of my ability illustrated

[3840]

why I think that is in the best interest of everybody, but I also have not meant to imply that anything is going to happen to it, but if we have authority to run this state

in the best interest of the consumers of Texas and the nation, we have to have authority to tell where gas can be produced and you can't feel you have a vested right and can also require us to allow whatever you want to be produced from the Texas-Hugoton, whether that fits in with preventing physical waste or correlative rights or not. Maybe you can, but if you can, then there is a serious conflict with our authority.

* * *

[3854]

BY MR. SPARKS:

Q. What do those separators do? A. That is to extract the liquid content.

Q. Condense it? A. Yes, sir. There are two reasons, it is not advisable for that liquid to go in the pipe line, and the other reason is we order it done because the royalty owner is entitled to his share of those liquids and we make them put separators on gas wells, they recover the liquid, run it through a liquid meter, measuring the volume and then throw it right back into the common stream and take it on to the gasoline plant but that gives you a pressure amount of how much liquid is recovered. I didn't answer your question because I can't say where production stops. On a gas well, like I guess in Texas-Hugoton, that gas is dry and everything is all right to start with. You can take it out of the well, I guess, and run it right into—

BY MR. McALLISTER:

Q. (Interrupting.) A gasoline plant? A. Yes. And there could be cases where it would be in such good shape where you wouldn't need to run it through a

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[3855]

gasoline plant, you can put it in the pipe line.

Q. That is thrue over in the Monroe field? A. So production would stop there when you got it out the well, but then there are cases where you run it through three stage separation and on through a gasoline plant and you haven't got it ready for the pipe line until you run it through all of that. I consider all of that part of the production operations until you get it ready to deliver into a pipe line, until it is in marketable condition.

Q. Where does gathering begin, then? Is that after you get it produced? A. Yes, sir; although we generally look to the gathering as part of production.

Q. You take a proposition of this kind, you take a gasoline plant and supposing the gas is delivered into a interstate pipe line and is moved for a distance in the interstate pipe line and then is processed. Under those circumstances where would gathering be completed? I mean do you have gathering and then you have transportation and then does it go back to gathering again while it goes through the gasoline plant? A. We have a lot of cases where you process the gas, you gather it, you run it through your lease separators and you gather and run it through a field plant.

Q. A gasoline plant? A. That is right. Then you put it into a pipe line and

[3856]

run it on down away and run it through another plant. I consider, and there has never been any occasion for us to make a legal decision, so I don't presume to speak with

any authority, so I presume, I consider, when you get it through the first processing plant, that that is when the production and gathering ceased, then if you do more processing down the line that is part of the transportation system.

Q. When you flare gas, has it been processed before it is flared? A. Some of it.

Q. I mean flare out of a gasoline plant? A. That has been processed, yes, sir.

Q. Where does the processing end? Do you have to carry it a given distance after you get it processed before you have completed it? A. The residue, where we have had large flares has been on the residue line from a gasoline plant.

Q. Yes. A. We have some flaring that way right now. That gas has been completely processed and it is ready to go in the pipe line and part of it does go into the pipe line but at times the pipe lines can't take it all and so it is flared, so the gas that was flared is just as thoroughly processed as the gas that went into the pipe line.

[3857]

Q. I show you paragraph 8 of Exhibit 135, and I call your attention to the words, the paragraph starts:

"That approximate 21.941 million cubic feet of natural gas that is being flared daily from the gas processing plant here involved has already been gathered and processed".

Now, gathering according to that statement, it seems to me, is employed as being completed as the gas goes in

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the gasoline plant? A. Not as it goes in, after it has been through the plant. This is in the Fullerton plant. The gas there is gathered to the plant, processed and gas being flared. Part of it was flared, and part of it was put into El Paso's lines.

Q. Yes. A. As I previously stated, I make no attempt to legally define all these things.

Q. No, I am asking practically from your thinking. Frankly when it goes through the Fullerton plant, whether out a flare line or into El Paso's lines it has to be processed and gathered and El Paso takes over on the transmission. Then you can't separate processing and gathering, is that right? I was trying to distinguish between the terms process and gather. A. I think of gathering as bringing it into the plant

[3858]

and processing is what you do to it.

Q. That is what I thought also. A. They are all tied in together.

Q. They are all tied in together. Just as transportation goes on beyond, they are tied together. A. That is right. One acts right after the other.

Q. You gather it, process it and then transport it to market? A. That is correct, although you sometimes produce it, and of course, it is all part of production and you do some processing right on the lease.

Q. That is right? A. Then you do some more gathering.

Q. That is right. A. Then you do some more processing.

Q. Then you may transport it and do some more processing? A. That is right.

Q. If, as a matter of fact, gas is assembled in one field and it is transported across country to a gasoline plant in another field— A. (Interrupting.) Excuse me. Possibly we have a specific illustration in this Shafter Lake we have been talking about. I didn't mean to interrupt but that might give you a specific illustration to question about.

[3859]

Q. That is right. A. It is produced in Shafter Lake and taken over to Fullerton to be processed.

Q. That is right. That may be transportation from one field to another as distinguished from gathering? A. Well, of course, gathering is transportation. I am a little at a loss—if we define the terms and I could tell you within those definitions which we were doing, but I have never stopped to define—in the process of gathering, you have to transport.

* * *

[3861]

Q. I appreciate that, and I understand that, Mr. Murray. In discussing the question of conservation this morning you referred to the price of gas. Were you considering there the price that the operator got at the wellhead? A. Yes, sir. I might possibly include the price that is paid after casing-head gas has been processed.

Q. The price of gas X the gasoline or included in the gasoline? A. The point I was making, particularly on

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casing-head gas, it is whether the price is high enough to justify the gathering and processing of the gas and so I've got to look to more than just what might be paid at the well-head, but whether or not the price paid when it leaves the processing plants is high enough to pay for all these costs—

Q. (Interrupting.) What you really mean is this, that the amount that the producer and the gatherer would realize out of their total operations in collecting gas through a gasoline plant and making it available for market? A. Could I add the producer, the gathering and the processor?

Q. The producer, gatherer and processor?

[3862]

A. Yes, because it costs something to process casing-head gas particularly if it is sour. They used to say it was completely impractical to do it, but we have gotten the price down plus a little extra price that it is beginning to be practical to sweeten sour gas. So there is what I am talking about, if we are speaking specifically of casing-head gas, it is the price paid for the gas after it has been gathered and compressed and put into a marketable condition.

Q. You have to include in that to determine the economic factors you have under consideration the amount received also from the liquid content out of the gasoline plant? A. Yes, sir.

Q. It has to be the gas as sold in its final shape after being sweetened plus the dollars realized from the liquid product? A. That is right. If you greatly increase the

liquid price. I don't mean greatly, if you increase the liquid price, that will do just as much good where there is substantial liquid to be recovered as increasing the gas price. It all works together.

Q. Isn't it a fact that where there was any sizable field at all in the past, even though it was sour gas, that that was gathered and processed for the recovery of the

[3863]

liquid content only, even though the gas was flared afterwards? A. I think you said isn't it a fact that where there was —

Q. (Interrupting.) Sizable quantity. A. Would you restate your question?

Q. Wherever there was any sizable quantity of gas being produced, casing-head gas, as a matter of fact, it was gathered through a gasoline plant, the liquid recovered and the residue gas flared? A. There were plants built to recover liquids.

Q. Well, there were great numbers of them, were there not? A. Yes, sir; and in that case they were built to recover liquids. There were a great many other fields where it wasn't feasible to recover the liquids. They just flared the gas out in the field, so we had two problems, one of getting the gas flared at a gasoline plant, that had to be further processed, dried, sweetened in some cases, and compressed. Now, the gathering had already been done to get the liquid out of it, so that wasn't necessary to take care of the gathering in order to get the gas marketed. In the other cases, the gas was still scattered throughout

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the field and you had to conclude the gathering of it. Does that answer your question?

[3864]

Q. It does in one sense. There is one more point, and that is sometimes the inability of the producers in the field to get together on a gasoline plant was the cause of the flare in the field and other times the volume wasn't sufficient to justify gathering and processing, is that right? A. That is right, yes, sir, we have had delays by arguments simply on who is going to get to build the plant.

Q. What would be your practice in that regard today if they couldn't get together on building a plant? A. Well, they can shut the oil field in and have plenty of time to work out their differences or views.

Q. And you sometimes do that, but it is only after a long delay that you get around to doing that. You try to work it out amicably before you do it? A. That is the position we take. They think we are hasty sometimes, but it seems to us it has been long and there is plenty of time to leisurely work it out.

Q. But you don't know of any case, do you, where the Federal Power Commission, by anything it has done specifically in relation to a company that is a natural gas company and also produces gas in Texas, where the Federal Power Commission by order, regulation or effort, as far as you are concerned, has sought to interfere with the free

[3865]

exercise and power that you feel you should have over the production of gas in Texas? A. No, sir. If I might add, I'd like to amplify on that, because the question might be raised why we are intervening here. We don't think the Federal Power Commission is going to take an action to interfere with our authority, but if we didn't come and frankly discuss these things, just like, until I was relieved, I was fearful of your statement about dedicated reserves—that is why we are here. We are under no real apprehension that you will. We don't, for example, haven't had, any conflict with you in regulating, say, Lone Star Gas Company, and United Gas Company. If you were to be holding a hearing on whether or not Lone Star producing company or Union Producing Company were under your jurisdiction, we'd be pretty concerned, because that is something in our field, and we'd be right in here intervening in order to tell you our concern.

Here Phillips is to us like United Producing Company or Lone Star Gas Producing Company. To you, apparently, it is like United Gas Pipe Line or Lone Star Gas Company, so we have a difference of views, and I haven't looked into the details of the operations of the organization, but I think at least I try to make my point clear about what we are concerned about—

Q. (Interrupting.) Yes, sir, I think—

[3866]

A. (Interrupting.) And I had the good example with United and Union. We'll take Union and you all take United.

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Q. But what I'm saying is if there is such an operation, except that instead of having two separate companies they do it all in one, necessarily the Railroad Commission of Texas and the Federal Power Commission must deal with the same corporate entity, each in their own sphere? A. That is correct. Again I think if you will combine Lone Star Producing Company and Lone Star Gas Company, then we'd expect you to keep on regulating that portion of it that is doing the same thing that Lone Star Gas is now doing, and we'd expect, without interference—we wouldn't expect to interfere with your authority there, and we'd expect without interference to do what we have been doing. I have been repetitious there, but I am anxious for you and the Federal Power Commission to understand our presence in this hearing.

Q. By that same token, you are not concerned with the authority we exercise over Panhandle Eastern Pipe Line Company, are you? A. I know of no area of conflict that has developed so far.

Q. Or Canadian River Gas Company or Texoma Natural Gas Company?

[3867]

A. No, sir.

Q. They are producers, large producers? A. This possibly is improper and please cut me off if it is.

Q. It is perfectly all right, go ahead. A. Is the Federal Power Commission regulating the production of Canadian River and Panhandle from their wells?

Q. No. We are leaving that to you. We never have

worried about it. We thought you were doing it, and now maybe we are wrong, I thought, when everybody kicked and said we were interfering—but when I get down here and talk to you, we found you were doing your job we assumed you have been doing, and we find out you are doing a good job. A. Thank you, sir.

Q. There is no thought on our part to do anything in the future than what we have done in the past. A. To specifically answer your question, I know of none, and your answer to me helps further my knowledge of the case, and I know of no conflict we have had on those companies in the particular question.

* * *

[3868]

BY MR. TULANE:

Q. Mr. Murray, are there any conservation conditions which you know of right now in the Hugoton Field which would cause you to cut down on the Hugoton allowable substantially below the nomination? A. No. I'll qualify that to the extent that they are not now getting what they nominate.

Q. I know that, but you don't know— A. (Interrupting.) I don't know of anything that would cause us to change the allowable they are now getting, but I do want to point out we are not giving them what they nominate.

[3869]

Q. Your first answer was correct? A. No, I had to qualify it. You said was there any conditions that would keep them from getting what they nominate. If they are

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getting now substantially what they nominated, then I know of no condition to change it.

Q. From your present knowledge in the foreseeable future can you think of any such conditions which would arise which would cause a substantial cut-down on the allowables in the Hugoton Field? A. Subject to the general qualifications I made earlier, I can say no.

BY MR. SPARKS:

Q. To what general qualifications do you refer? A. Of how Texas Hugoton will have to in times in the future gear itself to its fair part of the total Hugoton supply and its fair part of the total Texas supply. We have come, I think, to this question "to the immediate future" and I know of nothing in the immediate future that would change the present picture.

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[3872]

MR. TULANE: Today, Your Honor. If you will recall, the witness stated in substance that when a monopoly condition arose, he did not think it desirable, that he recognized that it was essential, that it be subject to government regulation. I believe you'll all recall that testimony.

PRESIDING EXAMINER: Is that your testimony as you remember it, Mr. Murray?

THE WITNESS: That is my recollection. I was speaking relative to the gas companies as domestic sales and pointed out that where a company had exclusive, shall we say, monopoly if that word is permissible, in a certain city, like Lone

[3873]

Star used to have in Dallas, there is no other company there, then I considered that that company had to be regulated by state authority, if it was purely an intrastate operation, and I would consider the same would apply on an interstate operation, that it would have to be regulated.

I didn't agree that it was desirable, I said it was undesirable and necessary.

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[3919]

JACK K. BAUMEL

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

Direct Examination (Continued) by Mr. Crenshaw

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[3933]

Q. I'll ask you to state whether or not if in considering the additional production for the seasonal demand it was found by the Commission that to take the gas at the increased rate would affect the reservoir and the potentials of the well, what, if anything, would the Commission do in those circumstances? A. Well, in these fields we are talking about, for instance, the Panhandle field or the Hugoton field or any other field in which there is no water drive, most of the proration we are doing is not primarily on waste, so much as protection of correlative rights, so in

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fields of that type where there is a solution drive field or gas drive field there is very little waste from high rates of production. It is only in these water drive gas fields that we fix the M. E. R. as the allowable even though the market demand may exceed many, many times the efficient rate, the Commission's orders will reduce that take to the actual efficient rate of production for the field.

Q. In the event that the purchaser made nominations for an increased demand on the production in that particular field and there was no possible way to get it under the allowables after they were set, what, if anything, would be done by the

[3934]

purchaser of the producer in order to supply that demand? A. Well, I might state this, that in accordance to the statutes for a reservoir which produces both sweet and sour gas, the statute specifically states that we, when allocating the allowable for these fields, like the West Panhandle field and the Texas-Hugoton field, we are restricted by statute to limit the allowable to 25 per cent of the open flow, so that if the market demand would increase for any of these fields to a point where by granting the allowable to each well according to the allocation formula it fixes the allowable for a well to exceed 25 per cent of the open flow, we automatically cut that back to 25 per cent, so we may reach a point in the Hugoton field or the Texas-West Panhandle field where the market demand may reach a point where it would cause all wells to be restricted to 25 per cent of the open flow. Then in that case, why, you never would be able to meet your market demand, and it would force

the pipe lines or purchasers either to interconnect with other fields in the state or not meet the market demand.

[3935]

Q. When you say interconnect, what do you mean by that, Mr. Baumel? A. I meant by that that if all the purchasers had certain market demand and they couldn't meet it from their connections, or any other connections in the field they just couldn't meet the demand or if they needed that gas they'd have to lay lines to other parts of the state to buy that additional gas.

* * *

[3939]

Q. Where there is a field from which casing-head gas was being produced, and well head gas, well head dry gas, that is, and the casing-head gas is taken to one of these processing plants and from there the processing takes out of the casing-head gas the liquid hydrocarbons and leaves

[3940]

sweet or sour gas, and that gas is flared, the residue gas is flared, what, if anything, can the Commission do with reference to regulatory powers? A. Do you mean in a field where there is a commingling plant which takes in casing-head gas and dry gas at the same time?

Q. That is correct. A. In that case, in some instances we wouldn't permit any flaring of gas and if gas would be flared in that plant, he'd, the operator, would have to show us first that he is utilizing all the gas from dry gas that is being produced but under the Commission's power on the

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flare gas orders, we would insist they cut the take from these gas wells to utilize all the casing-head gas and every bit of gas that comes out from that plant.

Q. Is there a field up there in the Panhandle and West Texas that you can think of where that kind of situation exists? A. Well, a condition like that might exist in the West Panhandle field, in which there are oil wells being produced also, and if there is a plant in the Panhandle field which takes in casing-head gas and dry gas well gas of course, that example is not so good, because all the casing-head gas is utilized in that field and no gas is flared in that field, but you take, for instance, the

[3941]

Goldsmith Field or any other field in which there are gas cap wells and casing-head gas, that condition would exist.

* * *

[3948]

Q. I'll ask you, Mr. Baumel, if price has any relationship to such a situation as we have been talking about, and if so what is it, that is, the price of gas. A. I think that was already discussed yesterday by Mr. Murray. The price of gas is depressed you are going to have little conservation. If the price of gas is high you will have very little trouble in carrying out your conservation laws.

[3949]

Q. Under a low price, a depressed price, after the producer had gone to the expense of constructing the plant to take care of the casing-head gas heretofore having been

flared, would he or not have a tendency, a strong desire, to go and produce solely from his gas wells rather than to utilize his casing-head gas under the expensive processes?

MR. McALLISTER: I object, Mr. Examiner. I'll withdraw the objection. Let Mr. Baumel answer it if he can.

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[3950]

MR. CRENSHAW: The very same question was asked of Mr. Murray and nobody objected to it at all and we have asked the same question of Mr. Baumel to see if he had an opinion about it. We are just wasting time with all kinds of ramifications. Let's go ahead.

MR. McALLISTER: Maybe the questions are what are wasting time.

PRESIDING EXAMINER: Go ahead.

THE WITNESS: I would say that it would put a producer in a dilemma if we ordered him to go ahead and build a gasoline plant and lay a gathering system to pick up this casing-head gas which was being flared and being utilized for legal purposes and later on a price was established at a low figure where he couldn't operate the gathering system and the plant, then naturally waste would be created and he would be forced to flare the gas and take the dry gas well gas.

BY MR. CRENSHAW:

Q. While we are on the subject of price, I'll ask you this question, do you have any opinion as an engineer and on the basis of your experience in dealing with regulations and

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administration of the laws of Texas with regard to gas, do you have any opinion about price and its relationship to conservation? If so, I wish you'd explain it.

MR. McALLISTER. I object. I think the witness has answered this question about three times this morning.

PRESIDING EXAMINER: You are now speaking of his experience?

MR. CRENSHAW: Yes, sir.

PRESIDING EXAMINER: In connection with the application of the conservation rules and laws?

MR. CRENSHAW: If he has any opinion about the relationship, if any, between price and conservation. If he has an opinion about it, I'd like for him to explain it.

MR. McALLISTER: I object, Mr. Examiner. The witness—

PRESIDING EXAMINER: (Interrupting.) The objection is overruled.

THE WITNESS: From an engineering standpoint, you cannot deny that economics has a great deal to do with the drilling of wells or the producing of wells.

PRESIDING EXAMINER: We aren't concerned in an argument here. What we are trying to find out if we can as I understand it is the experience of the Commission with respect to such situations.

THE WITNESS: The experience we find is that if an operator comes before the Commission for field rules and the Commission adopts a spacing rule of 40 acres or 160 acres and then the price of gas is despressed, we tell him he has to drill the wells on

[3952]

160 acres or on 40 acres but he can't afford to drill them under the price of gas. The question then comes in that waste will take place and the natural resources will not be recovered unless he drills those wells at 40 acres or 160 acres. He is forced under depressed gas prices to drill them on 640 or a thousand acres.

BY MR. McALLISTER:

Q. Where has that ever occurred? A. It hasn't occurred yet, but—

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[3953]

BY MR. CRENSHAW:

Q. That is one instance. Are there any other instances you can think of where price has any relationship to conservation?

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MR. CRENSHAW: I wanted him to develop from his own experience, I mean I wanted him to express an opinion based on his own experience, in any regard he can think of, whereby he would have an opinion as to whether price had any relationship to conservation. He told us about insofar as spacing was concerned, whereby he had an opinion how it would affect, price would have some affect or relationship to conservation. What I want him to do is tell of any other phase of conservation whereby he thinks or has an opinion about price in relationship to conservation. If he hasn't any more he can say. If he does, why, he can say that.

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[3954]

THE WITNESS: Another case would be in the premature abandonment of these marginal gas wells or the drilling of submarginal acreage, marginal acreage, where an operator couldn't afford to drill his needed wells if the price of gas was depressed or would be forced to abandon his so-called marginal gas wells.

[3955]

BY MR. CHENSHAW:

Q. Is there any other situation where price would affect or relate to conservation? A. The other one I have already answered was casing-head gas.

Q. Based upon your experience have you any opinion which would show to us whether or not under a situation where there is a low price for gas that the incentive to develop and produce among the drillers and producers and those who look for oil and gas, is that incentive raised or lowered in accordance with the price of the product? A. Well, I believe that past experience in the drilling of gas wells which have increased over the period of the last ten years, that shows when the price of gas was low we'd have few gas wells being drilled. As the price of gas has increased we are drilling more and more gas wells.

Q. Would it be your opinion that a higher price for gas would tend to increase the incentive for the further development of gas? A. Yes, sir, that is my opinion.

Q. Would you have any opinion with reference to whether the higher price for gas the more possible it is for the Commission to make further use of casing-head

[3956]

gas, stopping the flaring of gas? A. Yes, sir, that is correct.

Q. I believe you heard Commissioner Murray during the last few days say that due to the fact the price of casing-head gas was so low that that was one of the reasons why it had been flared or vented to the air for a long number of years.

MR. McALLISTER: I object, Mr. Examiner. I don't think this witness is called upon to appraise the value of Mr. Murray's testimony.

PRESIDING EXAMINER: I agree with that.

MR. CRENSHAW: He heard him testify.

BY MR. CRENSHAW:

Q. Would you agree with that or not.

PRESIDING EXAMINER: Go ahead. He isn't here.

THE WITNESS: My answer wouldn't be predicated on whether he was here or not. I agree with him one hundred per cent in what he says.

BY MR. McALLISTER:

Q. And you don't disagree with him? A. I don't disagree with him either.

MR. TULANE: Mr. Crenshaw, may I interject a question here?

MR. CRENSHAW: Yes, surely.

BY MR. TULANE:

[3957]

Q. Why should the low price of casing head gas cause flaring? A. Well, I believe the Courts in upholding our orders specifically said that in cases where it would be

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uneconomical where we forced them to conserve by virtue of confiscation that we didn't have the power to force an operator to conserve gas where we force him into confiscating his property; if the price of gas was so low that he couldn't afford to build a gathering system on his lines, I doubt very much whether our orders would have been upheld in Court.

BY MR. McALLISTER:

Q. How about the Crane plant, there is a gathering system where the gas was being flared to the air? A. Not all the wells were connected to the plant.

Q. Not all of them, but 66 and 2/3 per cent of them or better were. A. Yes, sir, but they have showed before the Commission that the gas was so sour you couldn't get into any line.

Q. You didn't have a line, did you, so the price didn't have anything to do with it, you didn't have an outlet? A. No, but when we asked them to put it back in the ground they couldn't afford to.

Q. That is right, that might be, but that was just a

[3958]

condition that nobody had any control over? A. That is correct.

Q. I mean you can't blame all the ills of the industry upon price? A. Well, that is correct, but price has a great deal to do with conservation.

* * *

[3973]

Q. If the conditions ever warrant it, the Commission

may lower the ratio, in which event it would help to utilize more gas in the production of the oil, is that correct? A. I don't understand you.

Q. If they lowered the ratio, made more— A. (Interrupting.) If the Commission lowered the ratio that would require less gas to be produced with the oil.

Q. And if that were so it would mean more gas could be used out— A. (Interrupting.) No, if the Commission reduced the gas-oil ratio for the field it would mean that more of the gas would be left in the reservoir and not be produced with the oil.

Q. I see. Then that wouldn't affect the amount of gas that reached the market at all, is that correct?

[3974]

A. It would tend to cut down your supply of casing-head gas from that field into the plant.

Q. If that is so, explain how that would result? A. Assuming that the field was existing at a six thousand to one ratio, more gas would be produced with oil through the gasoline plant and processed and be put in the El Paso Natural Gas transmission lines. If the Commission reduced the gas-oil ratio to two thousand to one, it would reduce the gas to be produced from that reservoir in that proportion and there would be less gas going into the transmission lines.

Q. So the setting of the gas-oil ratio does have some effect on the gas that is put on the market, is that correct? A. That is correct, yes, sir.

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[4018]

RICHARD R. SPURRIER

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Chumbris

Q. What is your name, please? A. Richard R. Spurrier.

Q. Will you please give your address? A. Santa Fe, New Mexico.

Q. Do you hold an official capacity with the State of New Mexico? A. I do.

Q. What is that official office? A. State geologist and by reason of that office secretary of the Oil Conservation Commission.

Q. How long have you been state geologist? A. Since 1945.

Q. How long have you been a member of the State Oil Conservation Commission?

[4019]

A. For the exact same length of time.

Q. And you are also secretary of the Commission? A. Yes, sir.

Q. Will you please state your qualifications of office, please? A. I have a degree in petroleum engineering from the New Mexico School of Mines. It is called a Batchelor of Science in petroleum engineering. I have stated these qualifications before the Federal Power Commission before.

I will be glad to carry these as far as necessary but in the interest of time I think I can cut them short.

* * *

[4021]

Q. Will you relate the duties of your office in a general manner? A. As a matter of fact, the Oil Conservation Commission is composed of the Governor, the Land Commissioner and the State Geologist. As a matter of practice, the State Geologist spends all of his time in the administration of the Oil Conservation Commission, and completely supervises administratively all the functions of the Commission with the consent and advice of the other two members of the Commission.

* * *

[4051]

BY MR. CHUMBRIS:

Q. Mr. Spurrier, will you state the objects and purposes of the State Oil Conservation Commission? A. The purpose of the Oil Conservation Commission of New Mexico is to conserve oil and gas in New Mexico.

Q. What action does the Oil Conservation Commission take toward carrying out that program? A. The New Mexico Commission is the state regulatory body for oil and gas and as such we supervise the drilling, completion and production of all oil and gas wells.

Q. The Oil Conservation Commission, when was it inaugerated into the State of New Mexico? A. It was established by statute in 1935.

Q. And the Conservation Commission has been oper-

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ating on through the years to the present time? A. Yes.

Q. Will you please explain how often the Oil Conservation Commission meets in the State of New Mexico? A. The Commission meets informally at any time it cares to, but it has regular meetings once a month.

Q. And they are in the City of Santa Fe? A. Yes.

Q. But there are occasions when they may hold a

[4052]

special meeting in other parts of the state? A. No, the Commission does not meet anywhere except in Santa Fe.

Q. How does the Commission carry out its program of conservation?

Give us several illustrations. A. Well, in a general way, the Oil Commission in supervising the production and drilling practices, the Commission keeps acquainted with the current practice, best practices in the oil and gas fields and in that way we try and do, I think, eliminate practically all waste, that is possible.

[4053]

Q. Could you state whether the program of conservation has retarded waste considerably in the last few years? A. Well, I think it has. In the interest of time and in the fact that several Commissions have testified before, I might say that we operate in a similar manner, and that with the—well, I might call it off at that, unless you want a specific instance.

Q. The Oil Conservation Act, as it now stands in the State of New Mexico, how does that compare with the

Oil Conservation Acts of her sister states? A. We were fortunate to benefit by some of the mistakes of the older producing states, such as Texas and Oklahoma and we, at the time our law was passed by the legislature, it was considered as a model law. At least two states have largely copied our law, I believe it was Arkansas and Mississippi who copied New Mexico's statutes, not entirely but substantially.

Q. Could you state whether the price of gas has any relation to conservation?

MR. TULANE: Mr. Examiner, may I object to that and ask first of all if he has an opinion and second what his opinion is based on?

PRESIDING EXAMINER: Yes, I think that might be developed.

THE WITNESS: Shall I answer Mr. Tulane's question?

BY MR. TULANE:

Q. First, do you have an opinion?

[4054]

A. Yes, I do.

Q. On what is that opinion based? A. My experience in New Mexico.

Q. I mean what is the factual background? I mean what situations have you run into? A. I can remember very well when I worked in Lee County, that is the southeastern corner of New Mexico, in 1940. As I remember the general current price for gas was two cents per Mcf. Seventy-five million cubic feet of gas, which I have seen coming out of one flare per day at that time was worth

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$9,000 per day at 15 cents in the Ohio market. It was obvious to someone that if it was worth that much in Ohio there must be some way to enhance the value of it in New Mexico, and you can see that that is what has happened. I should have used California, because all of the gas exported from New Mexico, practically all of it, finds a market in California.

In those days I couldn't give you an exact figure, but I know there were Millions of cubic feet of gas flared in New Mexico every day. The last official figure that we have compiled shows that that figure has been cut by 80 some per cent. There is only a small, 18 per cent or less gas being flared now as there was in 1940 or even five years ago.

BY MR. PERDUE:

Q. Pardon me a moment there. Do you mean 18 per cent of the total produced today or 18 per cent of that which was flared

[4055]

in 1940? A. Less than 18 per cent of the casing-head gas that is produced today is flared.

MR. PERDUE: Thank you.

BY MR. SPARKS:

Q. And in 1940 substantially all of it was? A. That is right.

Q. And in addition to that which was flared in gasoline plants there was untold millions of it that was flared at the wells that wasn't even gathered and taken into a plant and wasn't measured? A. That is correct.

Q. And doesn't appear in any official reports, is that right? A. Yes, sir. One official estimate arrived at five hundred and some million per day, but that was an estimate.

Q. It wasn't even worth metering it? A. Sir?

Q. It wasn't even worth metering it and flaring it? A. That is right.

BY MR. CHUMBRIS:

Q. The Oil Conservation Commission does it have the authority for well spacing? A. Yes, it does.

Q. Will you explain the procedure under which you act

[4056]

there? A. The statute specifically states—I don't see the section—that the Commission has the authority to fix spacing, not only the authority but the responsibility.

Q. And in practice how does that work? A. In practice the Commission calls a hearing any time a new pool is discovered and at this hearing the pertinent matters as to the reservoir characteristics are brought out and the Commission establishes spacing.

Q. And your program as to well spacing, is that part of your conservation program? A. Yes, it is.

Q. What other acts does the Oil Conservation Commission put into practice under the laws and rules and regulations as part of its conservation program? A. Well, the Commission enforces proration of oil and it is now encumbent upon the Commission to enforce proration of gas, which we have not yet done because we have just taken testimony to outline the pools, gas pools. We also have

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the statute behind us on the matter of ratable take, and we enforce that.

Q. Will you explain your procedure there? A. Well, ratable take is so simply done that it is just a matter of putting the amount that each well may produce into the proration schedules, and each well may only produce that which

[4057]

is authorized in the schedule which is the official monthly schedule of the Oil Conservation Commission.

Q. Does the Act provide for common purchaser? A. Yes, it does.

Q. Does that apply to oil, to gas as well as oil? A. Yes, it does.

Q. What do you consider to be the maximum effort of conservation of gas in the State of New Mexico? A. I don't know if I understand your question.

Q. What I'm driving at is when would you be satisfied that the State of New Mexico is getting the most out of its conservation program, is that by getting the most production out of the oil and gas wells? Is that what you would consider— A. (Interrupting.) No, we do not get the most that we can, that is, we do not produce all the wells at their maximum rate. As Mr. Baumel put it this morning, we try to produce at maximum efficient rate, although we do not have exactly the same type of hearings and conditions for setting allowable as does Texas.

Q. Then maximum efficient rate would be what you are pointing to under your conservation program? A. That is right.

Q. How long as the production of gas been going on in the State of New Mexico? A. Practically since the first production of oil, and

[4058]

that was in 1911, I believe it was.

Q. When has it been extensively produced in the State of New Mexico or when did the operations begin to rapidly grow? A. Do you mean the production of gas or—

Q. (Interrupting.) Yes, gas. A. Well, New Mexico's large production of gas is wet gas, so-called, or casing-head gas, which is produced incidentally with oil. I don't know if I understand your question, but since 1945 the production of oil has risen from about 98,000 barrels per day to about 140,000 barrels a day, and the production of casing-head gas, I believe, has risen about on the same percentage basis.

Q. How about the production of gas from the wells? A. The production from dry gas wells, the amount is something I do not know, and I am not familiar with how it has increased in the past 10 years.

Q. Is New Mexico, in view of the development in the San Juan region, considered a prospective, great prospective, producer of gas? A. Yes, it is.

Q. And that has been a rather recent development, hasn't it? A. Yes.

Q. Will you state why the development is just beginning to become a fact rather than in years passed?

[4059]

A. If you are speaking of the San Juan Basin, the reason

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there is because there has never been a market for gas, that is, any sizeable market, and because there is very little oil produced in the San Juan Basin and very little gas is produced with that oil.

Q. Does the price of the gas that they receive have any effect on that production?

MR. TULANE: Just a minute, Mr. Examiner. I don't understand that question. I object to it.

BY MR. CHUMBRIS:

Q. Does the price that the producer receives affect the progress of producing gas in that particular area? A. Well, I believe that it does. However—

MR. TULANE: (Interrupting.) I think that is an answer to that question. Now ask him how if you want to.

MR. CHUMBRIS: Do you object?

MR. TULANE: I object. I can't understand what you are driving at. I am sorry if I am stupid but—

PRESIDING EXAMINER: (Interrupting.) All right, he has answered the question.

BY MR. CHUMBRIS:

Q. What was the answer to that question? A. I believe that it does.

Q. You believe it does? A. Yes, sir.

[4060]

Q. Will you explain how it affects it?

MR. TULANE: Mr. Examiner, I am going to object again. What price are you referring to, the price at the wellhead, the price at some market and if so, what market?

MR. CHUMBRIS: I'm talking about the price to the producer.

MR. TULANE: Where? At the wellhead?

MR. CHUMBRIS: That is right.

MR. TULANE: Are you asking him whether the price at the wellhead will spur greater exploration and production, is that what you are driving at?

MR. CHUMBRIS: That is what I am getting at, yes.

MR. TULANE: All right.

MR. PURDUE: That is objected to as immaterial, Mr. Examiner, and certainly outside the issues of this case.

MR. PERDUE: It is too basic.

PRESIDING EXAMINER: Too what?

MR. PERDUE: It is too basic. Naturally if the price of the products goes up people try to produce it.

PRESIDING EXAMINER: I think that is true, but we've had the same question here.

MR. CHUMBRIS: That thing has been brought out for the last four days. I hope it didn't startle you gentlemen.

MR. PERDUE: No, but it is a basic fact that when the price of any products goes up people try to produce that product. I know it has been going over four days—

[4061]

MR. SPARKS: (Interrupting.) I think it is worth driving home again, Mr. Examiner.

PRESIDING EXAMINER: Beg pardon?

MR. SPARKS: I think it is worth driving home again.

PRESIDING EXAMINER: Well, is it driven now or do you want to carry on?

MR. PURDUE: Also exploration for gas or oil is not conservation, Mr. Examiner.

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THE WITNESS: That is your opinion.

MR. CHUMBRIS: That might be your opinion.

MR. SPARKS: Ask him that question.

MR. CHUMBRIS: I was stopped when I was going in that direction.

BY MR. CHUMBRIS:

Q. Will you answer the question Mr. Purdue just— A. (Interrupting.) I don't know if it was a question, but as I understand it the idea has been advanced that the use of gas or exploration for gas is not conservation. As we understand conservation it is the wise use of natural resources.

BY MR. PERDUE:

Q. Did you say wise use or wide use? A. Wise, w-i-s-e.

BY MR. SPARKS:

Q. Mr. Spurrier, you can't conserve it until you find it, can you?

[4062]

A. That is right. We have millions of tons of coal up in the San Juan Basin which was reserved by one administration and it still is.

MR. PURDUE: Mr. Examiner, as long as it is in the ground it is conserved, that is obvious.

PRESIDING EXAMINER: Go ahead.

THE WITNESS: I think it hinges on the definition of a term. We are talking about using gas here, so I say our conception of conservation is wise use of gas.

[4063]

BY MR. CHUMBRIS:

Q. I'd like to get your opinion on whether you feel that in carrying out your program of oil conservation, whether the element of price is related to conservation of gas. A. I think I partially answered that question. I didn't carry the thing through. In 1940 the price of gas in Lee County was about two cents. It approximates somewhere between four and five now, and I gave you the figures on the difference of the amount of gas being flared. I think that was basic, too.

Q. What effect does price have on abandonment of wells? A. Simply this, that if you get a higher price for gas, if a producer receives a higher price for gas, he can afford to produce a well longer and to a lower abandonment pressure.

Q. If there is a great abandonment of wells, does that affect your conservation picture? A. Well, naturally it does.

Q. Has your Commission ever exercised the power to fix the price of gas at the well head? A. No, it has not.

Q. Could you state whether in your opinion your Commission has the power and the authority under the law of

[4064]

the State of New Mexico and under the rules and regulations to fix a price. A. Well, my opinion is that it can. However, it is a moot question because it has never gone to court in New Mexico, and we have not done it. However, we did have a case where price was mentioned in conjunction with a ratable take situation. In this case which

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came before the Commission about a year ago for hearing, four or five wells in a pool were not even showing a ratable take, and naturally the owner of the well who was not selling gas or was selling a small amount brought the case up to the Commission as against the owner of a well who was selling several million feet a day. The case was continued for lack of evidence, and at the next hearing dismissal was asked for and granted by the Commission because in the meantime the operators had arrived at a common price and a common amount which is ratable take.

Q. In other words, that is one instance in which by amicable arrangement the Commission did not come to the decisive point of deciding whether they were going to have the authority to fix a price or not? A. That is right.

Q. Mr. Spurrier, could you state in your opinion that if the Federal Power Commission should assume jurisdiction over the producers and gatherers of natural gas,

[4065]

whether that fact would conflict with the regulatory power of the Oil Conservation Commission?

MR. PERDUE: I object to that question, your Honor. The assumption in there that the Federal Power Commission may take jurisdiction over producers and gatherers of natural gas has no bearing in this case.

MR. CHUMBRIS: I thought that was the issue of the case or one of the serious issues of the case.

MR. PERDUE: The issue in this case is whether the Federal Power Commission has jurisdiction over Phillips Petroleum Company, not all the producers and gatherers of natural gas.

PRESIDING EXAMINER: We are concerned here with the application to Phillips Petroleum Company.

MR. SPARKS: (Interrupting.) I know, but the thing is whether Phillips is a producer and then if it is subject to jurisdiction and that is a proper assumption to make.

MR. CHUMBRIS: Otherwise, Mr. Examiner, the State of New Mexico would not have been permitted to intervene in this case. We are not interested, as the other states have stated, in the battle between the Federal Power Commission and the Phillips Petroleum Company as a company. Our interest in the case is whether the Federal Power Commission will assume jurisdiction over producers and gatherers of gas in the State of New Mexico, which the Supreme

[4066]

Court has stated and even the decisions of the Federal Power Commission have stated that the state regulatory body has that jurisdiction, so to us, this particular question and as stated in the Interstate Natural Gas Case that jurisdiction will not lie with the Federal Power Commission so long as you can show a conflict between the Federal body and the state regulatory body.

PRESIDING EXAMINER: There is no conflict as far as this case is concerned, except insofar as the Phillips Petroleum Company is concerned.

MR. CHUMBRIS: Well, Phillips Petroleum Company is one of the companies that is regulated by our state regulatory body.

PRESIDING EXAMINER: I assume that to be the case, I know that to be the case, or else you probably

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wouldn't be testifying to this extent.

MR. CHUMBRIS: That is right.

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[4071]

Q. You have stated that the Oil Conservation Commission has certain power over the conservation program such as well spacing, is that correct? A. Yes.

Q. Assume that the Federal Power Commission attempted to take jurisdiction over producers and gatherers of gas as to well spacing, would that conflict? A. It certainly would.

MR. PERDUE: Once again we have the Federal Power Commission taking jurisdiction over all producers and gatherers.

MR. CHUMBRIS: That is the issue in the case.

PRESIDING EXAMINER: That is another one of those assumptions, many of which have been made.

MR. PERDUE: I think if we made the assumption, sir, that the Federal Power Commission would find it had jurisdiction over the Phillips Petroleum Company, I'd have no objection, but he assumes they have jurisdiction over all producers and gatherers. That is not in issue.

PRESIDING EXAMINER: All right.

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[4073]

Q. Mr. Spurrier, assuming that the Federal Power Commission

[4074]

takes jurisdiction over producers and gatherers of natural gas in the State of New Mexico, as it affects the Phillips

Petroleum Company, would that conflict, and assuming that that taking jurisdiction as to these various phases of regulation such as well spacing, proration and other means of conservation, in which the State of New Mexico already, as you testified, adequate and competent authority to act and which they have acted, would you consider the action of the Federal Power Commission in such a case to conflict with your state body?

MR. PERDUE: I object, Mr. Examiner. May we have the question read on that—

PRESIDING EXAMINER: (Interrupting.) Read the question, please.

(The question was read by the reporter.)

PRESIDING EXAMINER: Do you understand the question?

THE WITNESS: Yes, sir, I do.

PRESIDING EXAMINER: All right, go ahead.

THE WITNESS: And the answer is yes.

BY MR. CHUMBRIS:

Q. Assuming that the Federal Power Commission would take jurisdiction as to the fixing of prices of gas as it affects producers and gatherers of natural gas in the State of New Mexico and as it affects the Phillips Petroleum Company's operations in the State of New Mexico, that it would be in conflict with the regulatory body of the State of New Mexico with the Oil Conservation Commission?

[4075]

MR. PERDUE: I object to it on the same grounds, Mr. Examiner.

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MR. CHUMBRIS: It is the same question.

MR. PERDUE: It is the same question and it has the same thing in it.

MR. CHUMBRIS: Your Honor, I don't think you ought to be required to rule each time to each question. He objects, you have already ruled the question is permissible, so why doesn't he state his objection without arguing the same time.

MR. PERDUE: You couldn't possibly have ruled that question is permissible, Mr. Examiner.

MR. TULANE: That question is double also, you put in one type of producer and Phillips and you didn't show they are both in the same status.

PRESIDING EXAMINER: Read the question.

(The question was read by the reporter.)

PRESIDING EXAMINER: The question obviously isn't complete.

MR. CHUMBRIS: Would you read that back to me, the question as I put it.

(The question was read again by the reporter.)

BY MR. CHUMBRIS:

Q. Just would it be, that would take care of it?

MR. PURDUE: Same objection, Mr. Examiner, on the same ground. It is certainly asking a whole lot of this witness to undertake to express an opinion on that. There is no foundation laid.

[4076]

MR. CHUMBRIS: There certainly has. He has testified that the State Oil Conservation Commission has author-

ity to do certain things to conserve gas. He has also testified that he considers that the fixing of a price is related to conservation. He also has testified that he feels that his regulatory body could fix price of gas at the wellhead of producers and gatherers of the natural gas. All right, he has set that up. Now all he is asking to do is if the Federal Power Commission tried to do the same thing that they are doing would it be in conflict. I don't see where that isn't in line with the other questions that have been asked here for the last three or four days.

MR. PERDUE: I don't believe Mr. Spurrier testified the Commission, of which he is a member, had the power and authority in the State of New Mexico, had the authority to fix the price.

MR. CHUMBRIS: He did state that, you probably weren't listening, Mr. Perdue.

MR. PERDUE: No, I was listening.

MR. PURDUE: He said it was a moot question.

MR. CHUMBRIS: That is right, he said the court itself had not decided the question because it has never been presented to the court. He further stated that the closest instance of price fixing was the situation where the one party filed the complaint and before the case was determined the other parties realizing what would take affect, went home and worked the thing out within the time that was permitted for the continuance of the

[4077]

case. That was all in the record, gentlemen.

MR. PERDUE: He never definitely stated—

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PRESIDING EXAMINER: (Interrupting.) Just a minute. To begin with I think the question could be reframed and perhaps a lot of confusion and a lot of argument might be avoided.

As I understand it, what you are asking the witness is that assuming that the Federal Power Commission fixes the price of gas to producers and gatherers of the gas in New Mexico, would that conflict with the regulatory authority of the State of New Mexico?

MR. CHUMBRIS: That is right. The only thing is when I made that long question the last time and I paused for a minute I might have used the word that instead of would be and we changed it to that extent.

PRESIDING EXAMINER: Answer the question now.

MR. SPARKS: The Examiner's question?

PRESIDING EXAMINER: Yes.

THE WITNESS: The answer is yes.

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[4078]

Cross-Examination by Mr. Perdue

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[4085]

Q. Therefore, I believe it is safe to presume, is it not, sir, from your answers that the Southern Union Gas Company and the El Paso Natural Gas Company in all respects and in every way possible, and as you can check through your agents, that those companies comply with the New Mexico Oil Conservation Commission's rules and regula-

tions promulgated under the authority given to you by the New Mexico Legislature and entered in this proceeding as Exhibit No. 145, is that not correct, sir? A. I think so.

Q. Do you know, sir, whether the Southern Union Gas Company, owns leases within the State of New Mexico? A. I think that they do. I am quite sure they do.

Q. Do you know whether they own and lease wells within the State of New Mexico? A. Own and lease wells?

Q. Own or lease wells. A. They do own wells and they lease land.

Q. Lease land upon which wells are located?

[4086]

A. That is right.

Q. Thank you. And they own and operate and utilize in their operations lines which may be classified as field lines in the State of New Mexico? A. I don't know what you mean by field lines except that they are gathering lines which connect to a main line.

Q. And they also own and operate and utilize in their operations the main lines to which the gathering lines are connected in the State of New Mexico? A. That is right.

Q. And the same is true of the gasoline plants? A. I don't follow your question.

Q. Do they also own and operate and utilize in their operations gasoline plants within the State of New Mexico? A. Does Southern Union?

Q. That is right. A. Yes, they do have some gasoline plants.

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[4088]

Q. Mr. Spurrier, are you aware of the fact that El Paso Natural Gas Company owns or leases well, field lines and gasoline plants within the State of New Mexico?

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[4089]

THE WITNESS: No, I don't need the question read, I don't believe. I think the question is does El Paso own or lease wells, gasoline plants and field lines and so on and so forth. The question cannot be answered categorically yes or not. Is that what you wanted me to do?

BY MR. PERDUE:

Q. I'd just like you to answer the question that's all. A. I'm sure the El Paso Company does own some production, that is, some wells, although they are not required to furnish the contracts to us to show that. As I remember their testimony in a former case before the Federal Power Commission, it was shown they do own wells. I am not sure they own any gasoline plants. I think they perhaps are either constructing one or will, and, of course, the matter of field lines I am sure they do own some. How many, I don't know. How much, I don't know.

Q. I show you Exhibit 146-F, Mr. Spurrier, in this proceeding, operators monthly report which has been introduced into evidence by the State of New Mexico, and ask you if it is within your duties as a member of the Oil Conservation

[4090]

Commission of the State of New Mexico, to inspect or in any way see those reports as they are filed with the Oil Conservation Commission? A. It is not.

Q. It is not your duty? You never see those reports, then, as they are filed by the companies that fill them out and file them with the Commission? A. Occasionally I see one but I make no practice of checking form C-115, I have a statistical department that does that.

Q. Do you know, sir, what company in the State of New Mexico owns the gasoline plants which are known as Jal plant No. 1, Jal plant No. 2 and Jal plant No. 3? A. I believe Phillips owns plants so numbered.

Q. Thank you.

BY MR. CHUMBRIS:

Q. Are you sure whether they do or do you just think they do? A. I think that they do. I remember at least two of their plants. I don't know the exact locations of those plants, except that they are in Lee County.

BY MR. PERDUE:

Q. In your tenure as a member of the New Mexico Oil Conservation Commission has there been called to your attention any instance of a conflict between the applicability of rules and

[4091]

regulations of your Commission and the rules and regulations of the Federal Power Commission insofar as they apply to the operation of the El Paso Natural Gas Company? A. Did you say has any conflict been called to my attention? The answer is no.

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Q. You stated, sir, you did not know whether the Southern Union Gas Company was such a gas company as would be classified a natural gas company as that term is used in the Natural Gas Act. If Southern Union Gas Company were a natural gas company within the meaning of that term as it is used in the Natural Gas Act, would it not be reasonable to assume that if a conflict did occur between the applicability of the rules and regulations of the New Mexico Oil Conservation Commission and the rules and regulations of the Federal Power Commission, such would have been called to your attention? A. I think you lost me on that question.

MR. PERDUE: May we have the question read.

PRESIDING EXAMINER: Read the question.

(The question was read by the reporter.)

A. I think probably it would.

BY MR. PERDUE:

Q. Has any such conflict been called to your attention? A. If and if and if, yes.

Q. Has during the tenure of your office any such conflict been called to your attention?

[4092]

A. I don't know that Southern Union is a natural gas company, or are they subject to your jurisdiction, they sell all their gas intrastate.

Q. Well, I'll tell you, Mr. Spurrier, they are. Southern Union Natural Gas Company is a natural Gas company under the jurisdiction of the Federal Power Commission as is El Paso. A. Then the answer to both your questions is no, I have never heard of any conflict.

* * *

[4097]

Q. Mr. Spurrier, Exhibit No. 145 in this proceeding, which is the rules and regulations of the New Mexico Oil Conservation Commission, Page 9, Rule 104, the rule deals with, as its title indicates, "well space, acreage requirements for drilling tracts". Do you have a copy of that before you? A. Yes.

Q. You have stated that Southern Union Gas Company and

[4098]

El Paso Natural Gas Company to the best of your knowledge do own and lease property upon which wells have been drilled within the State of New Mexico. Could you tell me now, sir, whether those companies have complied to the best of your knowledge with Rule No. 104? A. Yes, they have.

Q. And to the best of your knowledge there has never been a conflict between the compliance by those companies of that rule and the compliance by those companies with the rules of the Federal Power Commission? A. I have no knowledge of any rules of the Federal Power Commission about spacing.

Q. No, but if there had been a conflict that would have been called to your attention would it not, sir? A. Yes, I am sure it would.

Q. Has such conflict been called to your attention? A. No.

Q. Mr. Spurrier, you stated in answer to a question asked of you by Mr. Chumbris, that the State of New

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Mexico had the Common Purchaser Act, is that not correct? A. I think it does, yes.

Q. Could you tell me if Rule 902, "Ratable Take", on page 24 of Exhibit 145 is the rule that the Oil Conservation Commission of New Mexico has promulgated under the Common Purchaser Act?

[4099]

A. Rule 902 says "Ratable take". It is entitled ratable take. I don't know if it deals with common purchaser or not. Common purchaser is defined in the statutes, I might say.

Q. May I call your attention to rule—

MR. SPARKS: (Interrupting.) It is also defined in the rules, if I am not mistaken.

BY MR. PERDUE:

Q. Rule 802 on page 23 is "Ratable Take, Common Purchaser", and applies to oil does it not, sir? A. Yes.

Q. And Rule 902 on page 24 seems to be ratable take although it does not say commor. purchaser—

MR. SPARKS: (Interrupting.) Yes, it does.

THE WITNESS: It does in the second line.

BY MR. PERDUE:

Q. It does? A. Yes.

Q. Would you say, then, after the opportunity you have had to look at the rule now that that is the rule promulgated by your Commission under the Common Purchaser Act? A. Yes, it is.

Q. It is. And it is a fact, is it not, that the rule goes on to provide that the provision of this subsection shall not apply to purchasers of casing-head gas from oil wells?

MR. SPARKS: Purchases

[4100]

MR. PERDUE: What did I say?

MR. SPARKS: I thought you said purchasers.

BY MR. PERDUE:

Q. "To purchases of casing-head gas from oil wells?" A. I forget how you phrased the question, but that paragraph 2 is "to purchases of casing-head gas from oil wells".

Q. And Rule 902 does not apply to such purchases? A. State that again, please.

Q. Rule 902 does not apply, then, to such purchases, is that not correct? A. That is right.

Q. Have you ever been aware, sir, or has it ever been called to your attention that there has existed or does exist a conflict between rule 902 of the rules and regulations of the New Mexico Oil Conservation Commission, as that rule applies to the operations of the Southern Union Gas Company and the El Paso Natural Gas Company within the State of New Mexico and the rules and regulations of the Federal Power Commission? A. Has the conflict ever been called to my attention?

Q. That is correct. A. No, it has not.

* * *

[4103]

Q. Sir, you made the statement upon your direct examination that the wisest use of gas is conservation? A. That is right.

Q. As to the word "use", the way you used the word "use", were you thinking there of the end result, the end use, of the gas? A. Yes. I was thinking whether it is to

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be flared or to be used for commercial purposes or domestic purposes.

Q. You weren't thinking, then, of the use of the gas, say, El Paso Natural Gas Company transports the gas to California, you were not thinking of the way the consumer in California used the gas? In other words, you mean if the gas is used to be transported by El Paso, that is a wise use? A. Yes.

Q. And that would be conservation because the gas is not blown or flared in the air? A. It is not wasted.

Q. Now, sir, you said that between the years 1940 and 1941, the waste of gas in the State of New Mexico had been greatly reduced and you cited as— A. (Interrupting.) No, I did not say that.

Q. You did not say that? A. I did not.

Q. Didn't you say that the amount of gas—

[4104]

A. (Interrupting.) I said between 1940 and 1950.

Q. From the years 1940 to 1950 that the waste of gas in New Mexico had been greatly reduced, is that not correct? A. That is right.

Q. And you cited as the reason or what in your opinion was the reason for such reduction, and such a great measure of conservation of the gas, that the gas had risen in price. I forget the amounts and they are not material. A. That is true.

Q. In that interim, has the Oil Conservation Commission of the State of New Mexico taken any measures to aid in the conservation of gas, natural gas, in the State of New

Mexico? A. Do you mean—if you mean shut down orders and that sort of thing, no, we haven't.

Q. You haven't promulgated any rules or regulations which to your mind would aid or enhance the measure of conservation? A. Yes, we have.

Q. You have? A. Repressuring plants, pressure maintenance plants.

Q. Would you not say, sir, that in your opinion maybe the measures the Oil Conservation Commission of New Mexico had taken in the years from 1940 to 1950 might share a little

[4105]

bit in bringing about this great advance in conservation in the State of New Mexico? A. Yes, I think we have helped conservation in New Mexico.

Q. Along with the two-cent rise in price, the Conservation might also be given a little credit? A. Yes, sir.

Q. In fact, if we get right down to it, the efforts of the Conservation Commission might be given most of the credit? A. No. I think the market and the price are the two important things.

Q. The fact that the El Paso Natural Gas Company came in and took large amounts of casting-head gas in that period would you not say, and I think we assuredly would, that the efforts of the New Mexico Conservation Commission greatly aided in El Paso coming in and taking that gas to market which had been flared before? A. I would say greatly. I would not say we helped.

Q. Helped a great deal? A. No.

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Q. Helped to some extent? A. Right.

Q. Rather than a primary reason for the great percentage of gas which is now conserved in the State of New

[4106]

Mexico, we find that the efforts of the New Mexico Oil Conservation Commission are at least as great as if not greater than the rise in price, is that not correct, sir? A. Would you restate your question. It seemed to me very similar to one you just asked before.

PRESIDING EXAMINER: Will you read the question, please.

(The last question was read by the reporter.)

A. No, I wouldn't say that was correct.

BY MR. PERDUE:

Q. If the El Paso Natural Gas Pipe Line Company had been willing to take the natural gas from New Mexico at the two cent rate, you said applied in the year 1940, would not that have been just as great a conservation measure? A. If they had been willing to, yes.

Q. So it wasn't the price at which El Paso took the gas, it was the fact that they did take the gas? A. No, that is not correct. The price very materially had a lot to do with it, because as soon as El Paso wanted to contract for the gas, there was a competitive market and the price came up, and when the price came up, the gathering systems could be laid to gather this flare casing-head gas.

* * *

[4110]

Q. Well, the question and the questions leading up

to it was this, I asked you if you knew that the Federal Power Commission regulated certain rates of the El Paso Natural Gas Company, and you indicated you did. Then I asked you if, in the course of regulating those rates, has it ever been called to your attention that a conflict arose between such regulation by the Federal Power Commission and the applicability of the rules and regulations of the New

[4111]

Mexico Oil Conservation Commission. A. The Federal Power Commission does not regulate the price of gas to El Paso in New Mexico.

Q. That was not the question, sir.

MR. PERDUE: Will you read the question, please.

(The last question was read by the reporter.)

A. No conflict has ever been called to my attention, no.

* * *

[4113]

Q. You stated that to the best of your knowledge, no conflict arose by virtue of the fact that the Federal Power Commission regulated certain rates of the El Paso Natural Gas Company? A. That is right.

Q. And you also said then in answer to a question of Mr. Sparks' that those certain sales took place outside the borders of the State of New Mexico and now I'm trying to determine whether you think that the reason no conflict has arisen is merely because of the fact that the sales took place outside the borders of the State of New Mexico. A. I don't think that has much to do with it, no.

Q. In other words, if the same sales took place within the borders of the State of New Mexico, you do not think

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[4114]

that by virtue of that fact, bringing the point of sale back within the borders of the State of New Mexico, there would ipso facto arise a conflict? A. No; I think that is a pretty hypothetical question.

Q. Hypothetical, but proper. A. As a matter of fact, I don't know whether it would or not.

* * *

[4115]

Q. And if the El Paso Natural Gas Company were a purchaser and producer of natural gas in the State of New Mexico, and the operations of the two companies as purchasers and producers were similar in nature and extent and scope, and if the El Paso Natural Gas Company —and it is—were a natural gas company within the meaning of the term as it is used in the natural gas act, and if by virtue of being such a natural gas company no conflict arose between the jurisdiction of the Federal Power Commission and that of the New Mexico Oil Conservation Commission, would it not be reasonable to assume that no conflict would arise if the Federal Power Commission took jurisdiction over such activities of the Phillips Petroleum Company?

* * *

[4116]

PRESIDING EXAMINER: Do you understand the question? Do you think you can answer it?

THE WITNESS: Yes, sir, I think I understand the question. I think he means that if Phillips Petroleum Company is a producer and a purchaser and if El Paso is also

a producer and purchaser—now, if those are the only two things we are taking into consideration and if that is so, why, sure, if one company comes under the F.P.C., so should the other one, if those two things only are true.

That is basic, I think. What is fair for one must be fair for the other one.

* * *

[4117]

Q. You stated in answer to a question asked of you by Mr. Chumbris that the price at the wellhead in your opinion had an effect on conservation of natural gas within the State of New Mexico, is that not correct? A. I stated that it did?

Q. Yes. A. Yes, I did.

Q. Would you say that the price of the market wherein natural gas is sold also has an effect upon the conservation? A. I would stick to my original contention, that the price of gas at the wellhead is very definitely a factor in conservation.

Q. Well, this— A. (Interrupting.) The person who sells the gas at the wellhead doesn't know or care what the price of gas is somewhere else.

* * *

[4122]

Q. To return to your statement that the price at the wellhead affected conservation, what is there about the price and what effect do you feel it has on conservation? A. Well, it just means that casing-head gas will be gathered

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instead of flared. Now, that is simply and basically all it means.

Q. You mean that if the price is high enough that the gas will be gathered instead of flared?

Q. You answered yes, did you, to my last question? A. Yes, I did.

Q. I think you shook your head and the reporter can't get that. A. Oh, I'm sorry. Yes.

[4123]

Q. Is it not that when you say the price is sufficiently high to bring about greater conservation, in other words, if the gas is gathered instead of flared, do you not mean that there is sufficient profit for that to be done? A. There must be profit as an incentive for any venture.

Q. But I mean sufficient profit. Do you mean the price is high enough so that it would pay— A. (Interrupting.) To lay the gathering lines to pick up the flare gas, yes.

Q. And that is why the price at the wellhead affects conservation, because it affects conservation in that if it is too low to make it nonprofitable to lay the gathering lines, they will not be laid, and if it is high enough to make it profitable to lay the gathering lines, they will be laid? A. That is correct.

* * *

[4125]

BY MR. McALLISTER:

Q. I have one other question. In that relation to price which you say affects conservation, according to your theory

the higher the price the greater the conservation, does that follow? A. Within limits, yes.

Q. What are the limits?

[4126]

A. Well, I don't know. I don't know exactly what you mean. If you mean for me to define the exact price of gas—

Q. (Interrupting.) No, not the exact price, but what would be—you stated to Mr. Perdue a minute ago that the price had to be sufficiently high to provide for the laying of gathering lines and allowing something for the producer over and above his actual costs, is that right? A. Yes, sir.

Q. If you were to take all of these costs, gathering lines and drilling and what-not, and you allow him all of that and some return on his total investment, is that a sufficient price? A. Well, if you are talking about six per cent I don't think it probably is.

Q. What per cent would you suggest? A. I really don't know.

Q. I mean you were very definite in saying that the price affected conservation, and I'm trying to get a measure of price in relation to conservation upon which you based your answer. A. Percentagewise I really don't know.

Q. How much dollarwise then, or pennywise? A. I never laid a system of gathering lines.

Q. I know, but you were very definite in saying that

[4127]

that price affected conservation, you gave it some thought, didn't you? A. Yes, you must make a profit.

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Q. But I mean what profit, 20 per cent, 50 per cent, annually? A. I'm not prepared to say. You've got to make a profit or else you don't do such things.

Q. I know, but what profit did you have in mind when you said that, a price sufficient to give them a profit, now, what profit did you have in mind? A. You'd have to go into a matter of the amortization of the pipe you laid and a few other things.

Q. Oh, yes, all of those costs. I have taken all those. He gets that without any question, whatever the proper costs are, amortization, depletion, operating expenses, income taxes, a salary for the man who has to do the job, all of those are expenses, I'm allowing all the proper costs of operation. A. Not being a busines man, I don't know what a profit—

* * *

[4129]

THE WITNESS: I don't think I am prepared to answer the question, Mr. Examiner; as a geologist acquainted that well with finances would probably be a producer instead of a geologist.

BY MR. McALLISTER:

Q. You said the price affected conservation. Let me put it this way, if it was bare cost out of profit, would

[4130]

it aid conservation? A. Would what aid conservation?

Q. A price for the gas at the wellhead or at the gasoline plant, wherever you want to put it, so that you have the gathering lines and the processing plant and its bare costs,

would that aid conservation? A. I doubt that it would. There has to be an incentive.

Q. Now, how much of an incentive? A. Profit is the incentive. I am not prepared to say.

Q. Well, let me put it in another way, you don't want to answer that question with the limited knowledge that you have? A. That is right.

Q. And your thinking hasn't carried you that far, you just want price? A. Profit.

Q. You want a profit. But you don't know how much profit? A. No, sir.

* * *

[4132]

Q. When you stated in answer to certain questions here this afternoon that price was an aid to conservation, what price was it that you had in mind? A. I didn't have any price in mind. I said just a profit.

Q. Just a profit? A. Yes.

Q. But you don't know how much of a profit? A. I'm sure it varies.

Q. Can you give me some limits? I don't want a figure down to a decimal point, but give me a range. A. I have no idea.

Q. You have no idea of a range? A. No, sir.

[4133]

Q. Pursuing that in another way, is it your concept that a producer, if he can get it, can get the highest price possible for the sale of his gas without limitation? A. That is what I would try to do if I were a producer, yes.

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Q. I mean as a conservation man, you are an official of the State of New Mexico now, and is it your concept, so far as conservation is concerned, that the producer in the state who sells his gas must get the highest price without limitation that he can possibly exact in the sale of that gas? A. That is the way it operates, yes, sir.

Q. And that is what you were speaking for? A. Yes, sir.

Q. And you don't think that there should ever be any limitation upon that highest price that he can get? A. As long as the price is determined in an open market between a buyer and a seller, I think that he should get as high as he can.

Q. And if I have a field or you have a field and it is the only available gas within a limited area, then you or I, in selling that gas, should use our position to get the

[4134]

highest price possible and that is O.K. in the field of conservation? A. I don't think the price should be exorbitant, but I think you should get as high—

Q. (Interrupting.) When does it get to be exorbitant? Who is going to determine that under the theory you have advanced? A. Well, I really don't know.

Q. You don't know? A. No.

* * *

[4144]

JACK K. BAUMEL

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

* * *

[4178]

Q. Sure. Mr. Baumel, do you get reports on the price of gas in these various fields that are under proration? A. We don't, not in any field except the West Panhandle field.

Q. You get the price on that? A. Under statute, I believe, of 1948, the legislature told the Commission to hold hearings every six months in the West Panhandle to ascertain the price of gas for that field and we do that every six months, and that is the only field in the state in which we do that.

Q. Is it just for the gratification of certain members of the legislature, or do you do anything with the price when you find it? A. We just ascertain it and issue our order setting out—

Q. (Interrupting.) Setting out the price for what purpose? A. My interpretation, that is just my interpretation, of that order, it would be so that any well which is unconnected and if it gets a market for carbon black, why, the carbon black company has to pay that price which is equivalent to the price ascertained for gas into a pipe line.

[4179]

Q. What price is it that you determine there? Is it an average price, the going price or the weighted average or what.

Q. Haven't you sat in on any of those hearings? A. I have sat in on every one we had and I haven't been able

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to interpret the statute as to whether we should find the average price, thegoing price or the weighed average or what.

Q. Which do you do, under your orders what do you do? A. Well, the last order we just listed the going price for every company, and we let the operator determine the average price, we didn't determine it.

Q. You didn't determine that? A. No, sir.

* * *

Q. The reason I asked you, that price must be a big help to you in your conservation work in that field, isn't it? A. The only help it would be is we know that the higher the price the more conservation we will have in that we believe that the value of that gas increases and there will be less and less regulation to try and make them

[4180]

conserve it.

Q. Let's take the West Panhandle field. Have you found that to be true? A. On the price we ascertain?

Q. No, I mean the question of as the price goes up you have less and less to do with conservation in that field? A. Yes, sir, we can show you records from way back in 1946 to '50 where as the price had increased there was very little gas being flared. In the early days of the Panhandle field large quantities of gas were wasted, billions and billions of cubic feet.

Q. Was that because of price or because of lack of outlet? A. Well, lack of outlet—

Q. (Interrupting.) You mean you get more outlets as the price of gas goes up? A. Yes, sir, that is correct.

Q. That isn't true, is it? A. Your question, is if you get a bigger price.

Q. (Interrupting.) As the price goes up you get more outlets? A. Well, if you have more outlets you have more competition.

Q. Which was it, the chicken before the egg or the

[4181]

egg before the chicken? That is what it is, isn't it? A. Certainly if you have just one outlet in the field, then the producer is at the mercy of that outlet and he's have to take it whether it is one cent, two cents or three cents or zero.

Q. And by the same token when you swing around the other way, if you have one producer and one pipe line or two pipe lines in a field, the pipe lines are at the mercy of the producer? A. No, not necessarily. You have competition there.

Q. Why, if he has all the gas in the field? A. I don't believe that would be true. There is no one field where we have one producer owning all the field, in fee, or anything else.

Q. I know, but take the Texas-Hugoton, Exhibit 134-A. A. Yes,sir.

Q. Where one producer is in a dominant position, you say that won't effect—now, I am not saying what it is today, but if that was the position in the field and you went in there to buy enough gas for a pipe line— A. (Interrupting) Yes, sir.

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Q. On the order of three and a half, three hundred fifty to five hundred million cubic feet a day. A. That condition does not exist in the Texas-Hugoton,

[4182]

you have more than one purchaser and more than one producer.

Q. I mean look at the figures there where the ratio is three and a half to one. A. Yes, sir, but still with that high ratio of Phillips, they still don't get what they nominate. They are still forced if they need the gas to buy from somebody else.

Q. That might be, but what I'm saying is, if there is only one outlet the producers are at the mercy of the pipe line. You say the reverse is not true? A. In this case there is not just one producer. If Michigan-Wisconsin believes they are at the mercy of Phillips, they don't have to buy from Phillips, they can buy from Kerr-McGee, and Shamrock or go on the West Panhandle and buy gas over there.

Q. As a practical proposition do you think that a pipe line can switch from field to field under the present pipe line set up in the State of Texas? A. Well, I—

Q. (Interrupting): Month to month. Just answer the question, and then I'll let you explain it. A. You want me to say yes or no and you can't answer that question yes or no.

Q. Go ahead and answer it in your own way. I didn't

[4183]

mean to hold you to a yes or no answer on anything. A. If Michigan-Wisconsin had made a contract to take that gas

from Phillips and if they can't get that gas from Phillips and if they need that gas, they'll have to interconnect. Under our proration orders they'll have to do that.

Q. You are arguing for your orders. A. Let's set aside our orders. We prorate oil, if a company can't get their allowable from their own connections, they'll have to interchange and buy from somebody else. The Michigan-Wisconsin line doesn't stop—true it stops in Texas-Hugoton, but it goes through the Oklahoma Hugoton and the Kansas Hugoton.

Q. But as a practical propsition would you tell me how they can get gas in those other fields? A. If it goes through those fields, why, and they can't get from the Texas side, they'll just have to take on connections from those other fields.

Q. But you think that works without consideration to the provisions of the contract? A. I don't see how it would breach the contract, if Phillips, under the regulations of the Texas Railroad Commission can't supply that contract, Michigan-Wisconsin would have to get gas some place else.

[4184]

Q. We are afield from what we started out with. You say if there is one pipe line from a field, the producer is at the mercy of that pipe line? A. Yes,sir.

Q. Those producers can sell that to some other pipe line in another field? A. That is correct.

Q. But as a practical matter, do they have the opportunity? A. They have the opportunity if they want to go out and lay their own lines to some place else.

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Q. Then every producer in the state has equal opportunty to carry his gas to the point where he gets the highest price for it? A. That is correct.

Q. And the same would be true to a pipe line, they could go ahead and extend their lines to other fields? In theory that sounds good, doesn't it, but in practice it wouldn't work? A. Mr. McAllister, eventually that would have to come about just like in oil.

Q. I know, but we are dealing with the present, aren't we? A. Even with the present I can't say what the Commission might do tomorrow, the Commission might get an order out tomorrow and prorate the Texas-Hugoton with the West Panhandle field and in this case Kerr-McGee, Phillips and Shamrock

[4185]

would not be able to get their demand at all from the Texas-Hugoton field.

Q. If you did that you would make that order effective down the road 12 months to give people an opportunity to rectify their operation? A. I don't know whether we would make it tomorrow or six months. Assume they made it in six months. In order for Michigan-Wisconsin to lay line someplace else, they'd have to go through you to get a certificate of convenience and it may take six to eight months from you.

Q. That is right, or maybe Phillips would have to get that certificate? A. I don't know. I imagine if you classify them as a natural gas company they would.

Q. Well, it wouldn't take Phillips any longer than it would Michigan-Wisconsin, would it? A. That is right, and

in that case they still wouldn't be able to supply the contract.

Q. I mean it is a practical proposition. No one is going to lay down any rules just to embarrass somebody? A. No, I'm just saying that that is what the Commission will eventually do. We have been discussing that, and they can get out an order, effective today, maybe effective September 1, I wouldn't know.

Q. But no order of that kind would be very effective if,

[4186]

within that time, due to pipe shortages or one thing or another, the necessary connections were not being made or cannot be made? A. That is correct.

Q. I mean those are problems that would have to be worked out, it can't be an arbitrary order, it would have to be sensible? A. That is right, all our orders have to be reasonable.

Q. When it comes right down to the last consideration your main objective in providing the rules and the allowable from each field is so that as to each producer in the field and each one, each purchaser in the field, they get a fair shake?

MR. SPARKS: Are you limiting your question now or is that as to all fields, Mr. McAllister?

MR. McALLISTER: I'm putting it in all fields. I don't make it that way, but there is no reason why it shouldn't be equally applicable to all fields, as far as I know. I think it will apply equally to one field or all fields.

PRESIDING EXAMINER: Read the question.

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(The question was read by the reporter.)

THE WITNESS: I believe I stated that the Commission in prorating gas prorates to prevent waste or to prevent confiscation of property. In the absence of waste, it is to distribute the allowable ratably so that all wells will get a fair share in the market.

BY MR. McALLISTER:

[4187]

Q. Yes, where there is waste— A. (Interrupting) The Commission will reduce the purchasers nomination of the take of the field to the most efficient rate of the field and distribute it ratably under the allocation formula irrespective whether that M.E.R. meets the market demand or not.

Q. That is right, but I mean so far as the producer or the purchaser— A. (Interrupting) It is distributed rateably according to the allocation for the field.

Q. So that statement I made would apply equally to all fields where you have prorated them? A. That is correct, our orders have to be fair and reasonable to all fields. We can't prorate one field and then using a similar order in another field, disregard the Commission's rules and regulations or allocation formula for that.

Q. Now for getting down to the point, a great deal has been said here about price being a dominant side which favors conservation. Can you give us an example of that in a practical way where you have seen it work? A. I thought you asked me that yesterday and we went over it, but I'll go over it again.

Q. I mean we did go into it a certain amount as far

as flare gas is concerned. A. Yes, sir, and I believe we also went into that insofar

[4188]

as we stated that the price has a great deal to do in premature abandonment of marginal wells and also that drilling of marginal acreage and in in-fill drilling in fields.

Q. You mean between the spacing? A. Yes, sir.

Q. Between normal spacing when the pressure gets down to relatively low pressure? A. Even normal spacing or greater spacing, our spacing orders are minimum spacing rules. An operator doesn't have to drill a well on 10 acres if he has six forty.

Q. No. Is it your position that the price should be such that will permit all this marginal drilling? A. I wouldn't say that the price would permit. I believe the price should be high enough which will be an incentive to the operators to continue to produce these marginal wells to the least economic limit he can afford to and at the same time go back in and redrill or rework those wells which will permit him to produce his gas. I don't know whether it is a high price or a low price. I am saying the price has to be high enough to be an incentive to him to go back in and do that work.

Q. Now, we'll take an ordinary field here, and you could represent it by a block wherein the breaking point between cost and revenue would be represented by a diagonal line drawn from corner to corner. That would be an unusual field, but I mean it is representative of the question. Do get my point?

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A. Yes, sir.

Q. If you fix the price which would be at the extreme corner, then that would permit every single well in the field, no matter how far out of the down reaches of a horizon to produce and market that gas without loss, isn't that right? A. Well, you are speaking of fixing the price. I'm not speaking of fixing the price.

Q. No, no; I mean any price that is fixed by reason of the action or normal concepts or competition and so on in the field? A. Well, I'm only speaking in terms of the going price or a competitive price.

Q. Well, that is a competitive price because the fellow says I have this field and I'm not going to sell any gas in it until I get that price which is up at the top corner, which will permit me to recover every bit of gas in here, when I get that I'm going to sell the whole field? A. That is right, if the operator fixes that point, assuming 25c a thousand and he has made a calculation which shows him that under 25 cents he can afford to do all the drilling, that is correct.

Q. That would be what you would say would a price that would assure the maximum in the way of conservation? A. Well, it may and may not.

Q. Well, why not?

[4190]

A. It may be that at 35 cents it might still be better for him to go back and do the additional recovery.

Q. Then you'd want to put it above 35? I want to see how far up the road you want to go on this thing. A. It all

depends when the operator sets that price as to whether he considers secondary recovery and so forth or repressuring or compressing the gas and so forth and so on. If he has taken all that in consideration, then I would say that was all right.

Q. It is a price approaching that which you recommend, as I understand you, as being a price which will aid in conservation? A. Well, it might aid in conservation so far as the particular field is concerned, but as far as increasing our reserves or additional drilling for gas in other fields that price may be low, so you couldn't very well say that this 25c as far as that field is concerned would be a criterion so far as conservation through the state.

Q. Is there— A. (Interrupting) Certainly if gas would be at a dollar a thousand cubic feet it would be an incentive to the present oil operators to quit drilling for oil and start drilling for gas and we would double our reserves and doubling our reserves in gas the price would be long.

Q. I mean if there was that much gas you could double

[4191]

your reserves that would be the effect? A. That is right.

Q. You don't have that assurance? A. We tried to put that exhibit in and you ruled it out. We wanted to show that since 1945 and 1939 as the price had gone up, it more than doubled the wells in Texas alone.

Q. I know, but you know full well there have been hundreds of wells drilled in places merely to develop gasoline to exist in a reservoir to provide gas for a pipe line? A. I believe in the early days when they drilled for gas they drilled for gas and found oil.

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Q. I know, you said the last five years? A. They drilled gas because the price had gone up. The price at the wellhead had increased and it was an incentive to the operator to do additional drilling.

Q. Of course, that is easy to argue, but you know they drilled, Phillips has drilled gas wells, to be practical, on known acreage to supply gas to Panhandle Eastern Pipe Line Company where the selling price was four cents? A. Yes, sir; but if the price had gone down to two cents they wouldn't have drilled those wells.

Q. Are you sure they wouldn't? A. I am pretty sure they wouldn't. I know if I was them I wouldn't have done it.

Q. I know, but that was the price and they drilled at that

[4192]

price and if you had an outlet at two cents and the well was drilled, who is to say that it wouldn't have been sold at two cents? A. That is true, they would have sold the gas at two cents but whether or not it would be feasible for them to go along and recover all that gas in that well up to 50 pounds abandonment pressure is another question.

Q. That is another question. Don't get the idea that I am favoring smaller and smaller prices no matter where they go. It is just like you said yesterday bigger and better pipe lines would provide a market for the gas in Texas? A. That is right.

Q. But just as bigger and better pipe lines will provide a market for gas in Texas, so also a fair price for the gas in that pipe line will promote the sale of gas at the

other end? A. That is correct, but, then, in turn if the producer and gatherer, processor has a field that some outside agency will step in and put in a ceiling or a minimum on that price, that is another question, and it is going to affect a great deal of additional recovery of reserves and additional gas for those pipe lines, irrespective of how many pipe lines we have through the state. You are going to lose more gas going into those lines, if they are afraid to put the gas into those lines.

* * *

[4228]

Q. Yes, that is right, but you assumed that the price would be so low that he would not be able to meet those costs? A. That is correct.

Q. But if on the other hand you assume he has allowed a price or a price is fixed, if it is fixed, which will compensate for all his out of pocket costs, carrying costs and some profit, although some may say it would be inadequate, this answer that you gave was not in consideration of a situation such as I have described? A. Well, it could be if you went ahead and fixed the price at that particular time where he could just make it pay for his cost or a little bit profit.

Q. Let's make it an adequate profit? A. All right, an adequate profit, and then his other operating conditions as far as production of his oil wells were increased, so the cost of producing that casing-head gas increased, and you held him down to that price which you fixed, he'd have an alternative to shut in his oil operations because he couldn't afford to take the price which you fixed.

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Q. Supposing he by contract had fixed that price and then

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he runs into this situation, he'd be in the same dilemma then? A. That is correct. If he made his own bed, he'd have to lie in it.

Q. I may say it may say it may have just as many thorns as the other one we were talking about, is that right? A. Under the other thorn he couldn't help himself, but under the contract he could wait and when the contract expired he could raise it, but under that same contract which you speak of, he is under the dilemma that we forced him into making that contract if we insisted that he put that gas into a line or close his oil wells, he wouldn't have any alternative as an oil operator to lose a hundred barrels of oil a day at the expense of three hundred thousand or five hundred thousand cubic feet of gas. In that case he would take any contract to keep his oil wells going.

Q. I mean whereby your order you force him to do that, are you implying that you would relieve him from a bad contract that he might make? A. No, sir, we wouldn't relieve him. We would insist that those oil wells, that that casing-head gas, be taken into a line and utilized under legal purposes or be put back into the ground.

Q. Well, under the question that I put to you I said where later on a price was established at a low figure, those were the words of you answer—

[4230]

A. (Interrupting) Yes, sir. What I meant in that connection was that assuming he had laid his connections and

gathering system and attained a price, say, of six cents or some other agency—

Q. (Interrupting) Call it FPC because everybody is thinking about them anyway. A. All right, say, FPC declared him a natural gas producer and went into the rate basis and found he should have three cents, he would be in that dilemma I just stated.

Q. But if on the other hand, the Federal Power Commission giving full consideration to all costs and fair return, fixed that six cents, he'd be right where he was?

* * *

PRESIDING EXAMINER: Answer the question.

THE WITNESS: That is correct, yes, sir.

BY MR. McALLISTER:

Q. And you haven't any reason to believe that the Federal Power Commission would not be fair and reasonable, have you, in the exercise of any authority that is required by law to exercise?

MR. SPARKS: It is argumentative, Mr. Examiner.

[4231]

MR. McALLISTER: I'm asking if from his experience.

MR. SPARKS: He has not been regulated by the Federal Power Commission as a natural gas company. How does he know how he might have been treated if he had been.

PRESIDING EXAMINER: The objection is overruled.

THE WITNESS: I don't believe I have stated throughout my examination here that the Federal Power Commission would be unable or wouldn't be unreasonable.

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BY MR. McALLISTER:

Q. Your dealings with them haven't been such but to believe that they are fair? A. That is right.

Q. You would be willing to say you believe them to be fair? A. I believe them to be fair on what they have been doing, that is, the regulation of gate rates as far as pipe lines are concerned.

Q. And as far as issuances of certificates are concerned and other matters coming under their jurisdiction? A. That is correct, yes, sir.

* * *

[4232]

Q. Generally speaking you don't know when you are going to get a marginal well, do you, until after it is drilled? A. That is right, you don't know when you are going to get a well at all until you drill it.

Q. That is correct. How is this price going to

[4233]

effect marginal drilling? I mean it will affect any drilling, but why did you relate it to marginal drilling? A. It would affect any drilling, but by marginal drilling I meant infill drilling or acreage which an operator had found by previous drilling that it was marginal acreage. In other words, if he went ahead and drilled the first well on that acreage and found it to be 200 thousand cubic feet potential well, which would fall in the category of a marginal well, he would then instead of continuing to drill that acreage he must move up on the next contour or down the next contour to try and pick up larger potential wells.

Q. Or he might drill another section there because he might feel that that was just one of those unhappy experiences that you sometimes encounter in the oil and gas business? A. That is right, yes, sir. And then that marginal acreage under a depressed price, he would just hold that in abeyance until he could afford to go back in and do additional drilling.

Q. Well, it is just like a farmer who has a certain amount of land that is down around a creek bottom and it is flooded every now and then and one thing and another, and then the price of wheat or cotton is high, why, he takes a chance and plants it and other times it isn't worth

[4234]

the chance and he just passes it by? A. That is correct. That same thing will apply to any industry.

Q. It applies anywhere. It is a question of price in relation to possible production? A. Yes, sir, that is right.

Q. And it is the incentive that arises from the possibility of greater gain to the higher price? A. That is correct. That can be be pointed out in many instances and instances in oil, that the price of oil now of two dollars and sixty-five cents, we are producing greater and greater of those stripper reserves, while at a dollar a barrel it might not have been feasible or economical to continue to produce the wells.

Q. And when it drops below a dollar as it did back in the '30's— A. (Interrupting.) We abandon them completely.

Q. And there would be none of that oil recovered? A. That is right.

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Q. So the economic price recovered for gas is a variable that depends upon many conditions? A. The economic price?

* * *

[4241]

Q. The Panhandle Eastern Pipe Line was built, the Cities Service built lines out, the Canadian River and Colorado Interstate, Natural Gas Pipe Line Company, and Texoma and some of those lines began taking volumes of gas which at first didn't substantially take up the full volume, but as the markets grew they made a dent, you might say, in the supply and the price began to be, the price for gas began to be, a reality rather than a nullity? A. Yes, sir.

Q. Now, it would be pretty hard for a person without a very detailed study to say whether it was the price increase that caused the market or whether the market was what increased the price, isn't that right? A. That is just like the example you gave whether the chicken laid the egg or the egg—

Q. (Interrupting) Yes, it is pretty much that thing, isn't it? A. That is right.

Q. And today availability of markets will do as much or more for conservation by making available full complete facilities to take care of all flare gas or excess gas production than will price alone, isn't that right? A. I believe both of them will go hand in hand.

[4242]

Q. Both of them go hand in hand? A. That is right.

Q. As a matter of fact, have you ever thought of the proposition that if casing-head gas could be purchased at a slightly lower figure than gas well gas that the pipe lines might be able to exert themselves more to acquire that gas and take it out in the interest of conservation and save the gas well gas? A. That is correct, that is right, that happens, I believe, every day our fields in Texas. If a pipe line has made contracts in a field to dry gas and at the same time has obtained contracts in the field for casing-head gas at lower price than dry gas well gas, they will only take so much gas from the dry gas wells to hold the contract, but will take moves of their gas from the casing-head gas.

Q. And that will be a distinct aid to conservation? A. Yes, sir.

* * *

[4244]

Q. And you are familiar, are you not, with the operations of the Panhandle Eastern Pipe Line Company in some respects, have been subject to the jurisdiction of the Federal Power Commission over the years in the past? A. That is correct, insofar as the Federal Power Commission in fixing them, as a transmission lines, the gate rates.

Q. And so far as certificates of convenience and necessity are concerned? A. Yes, but you don't fix their rates at the wellhead as a producer or gatherer, do you?

Q. I'd like to ask you a few questions and I'll go up there and you can come down here maybe. A. All right, go ahead.

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Q. With respect to some of the other operations of the Panhandle Eastern Pipe Line Company, they are under your jurisdiction, as far as the production and gathering of gas as I outlined they are under our jurisdiction.

Q. Has there ever been any conflict that you know of between them? Have you encountered any rule, regulation or order

[4245]

of the Federal Power Commission that in any way interfered with the exercise of what you consider to be your proper functions in regulating or laying down rules applicable to the operations of the Panhandle Eastern Pipe Line Company in the State of Texas? A. There hasn't been any to date insofar as the production and processing and gathering of gas is concerned, no, sir.

Q. Would your answer be the same with respect to the operations of the Texoma Natural Gas Company? A. Yes, sir, Texoma Natural Gas Company, you exert your jurisdiction so far as a transmission line in fixing the gate rates. The Railroad Commission exerts its jurisdiction only so far as the production, gathering and processing of the gas and there is no conflict between the Railroad Commission and the Federal Power Commission as to that.

Q. You are stating what you do with respect to Texoma Natural Gas Company and the Federal Power Commission may do a little more than you have outlined? A. Yes, sir, I am just saying that as far as granting them the certificate of convenience and necessity and fixing gate rates, why—

Q. (Interrupting) Prescribing accounts— A. (Interrupting) And so forth, that is your jurisdiction, yes.

Q. Texoma is a producer and gatherer in Texas? A. Yes, sir, they produce and gather the gas in Texas.

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Q. And they also process it? A. Yes, sir, they process it.

Q. And the Canadian River Gas Company is in the same situation? A. Yes, in the same situation as the United Gas Company would be or the Lone Star Gas Company would be.

Q. The Lone Star Gas Company does not produce? A. Well, they have a producing company, the same situation at United Production Company.

Q. That is right, but Lone Star does gather the gas that is produced by the Lone Star Producing, Lone Star Gas Company does gather the gas produced by Lone Star Production Company? A. Yes.

Q. And Lone Star Gas Company processes the gas through gasoline plants which are operated by Lone Star Gas Company? A. Yes, sir, that is right.

Q. And Canadian River Gas Company some years ago —I said some years ago, after proration order in the Panhandle field in '48, the latter part of '48—encountered difficulty in providing the volume of gas that they required to their markets, is that right? A. Yes, sir.

Q. And they have an obligation to Colorado Interstate to deliver a certain volume of gas to them and Colorado Interstate had an obligation to deliver certain gas to Natural Gas Pipe

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[4247]

Line Company of America, or are you familiar with that? A. I am only familiar insofar as that prior to that Commission Order of 1948 in which we lumped the west sweet and west sour in prorating it as one field, that prior to that Canadian River Gas Company drilled very few wells on their acreage and they could produce all their market demand from their own wells based on 25 per cent of open flow. When the Commission began in September 1948 to prorate the west Panhandle field as one, that is, including the sweet and sour under the allocation of two thirds acreage plus one third potential, Canadian River Gas Company protested that formula and sued the Commission. We insisted that the proration unit is 640 acres, if they wanted additional gas they had an opportunity under our order to drill their acreage to six forty and by doing so they could not only end up with their own market demand but increase their ability to produce gas from their acreage.

Q. That is right. And when your order stuck, let's put it this way, they weren't able to upset it— A. (Interrupting) They started drilling wells.

Q. But in the meantime they were unable to meet their market demands and had to go out and buy gas elsewhere? A. Well, that is the purpose of proration. If they can't get it from their own wells and connections they have interchange or lay lines—

Q. (Interrupting) I said there they had to go out and buy

other gas. As a matter of fact, they didn't, they cut back on their production, but Natural Gas Pipe Line and Texoma, who were short, had to go out and buy gas? A. That is right.

Q. And you know that Canadian River produces gas from a great number of wells, it gathers the gas from those wells, it processes the gas and then carries it some distance beyond the processing plant to a connection with Colorado Interstate Gas Company? A. Yes, sir.

Q. As a producer and gatherer and processor, the Federal Power Commission has fixed the price at which it is to sell that gas to Colorado Interstate, you know that? A. I didn't know that they fixed it at the wellhead as a producer?

Q. (Interrupting) I didn't say that. They fix the price at which the gas is sold by Canadian River to Colorado Interstate—

MR. SPARKS (interrupting): Mr. Examiner, if they have, they have, and I assume it is part of the official record of the Commission. I don't see any necessity for proving it of this witness?

THE WITNESS: I don't know.

PRESIDING EXAMINER: The witness said he didn't know.

THE WITNESS: I don't know.

MR. SPARKS: I'm sorry, I didn't hear his answer.

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BY MR. McALLISTER:

Q. If it is a fact that the Federal Power Commission has done as I have stated, has that operation by the Federal Power Commission interfered in any way with your exercise of your authority within the State of Texas? A. It hasn't as far as our agency is concerned, but it has with other agencies.

Q. You are not speaking for them, are you? A. No, but it has insofar as when we fix the price in the Panhandle field, west Panhandle, ascertained the price, they have been kicking to us and to the other agencies that they couldn't pay the taxes on that price.

Q. On which price? A. On the price which we set at four and a half cents and you, I believe, had told them at three and a half. We insisted that there it was the four and a half.

Q. And they paid on that basis, and the Federal Power Commission never said that any other price should be the basis for your taxes, did they? A. No.

Q. It is one of those things where a fellow is trying to save his own hide and he is likely to blame most anybody if it will help him, is that right? A. I presume it is right.

[4250]

Q. But eventually he paid the taxes based on the price which you fixed in the State of Texas? A. But there is a conflict, it seems to me, as to what should be the price there.

Q. We can argue that there is a conflict, but has it in-

terfered with your exercise— A. (Interrupting) Oh, no, it hasn't interfered with our exercise.

Q. And to the extent that Texoma operates as a producer and gatherer of gas in the State of Texas and delivers that gas to Natural Gas Pipe Line Company, after having processed it, I mean after Texoma processed it, has that operation of that company as a producer and gatherer in any way by reason of the authority of the Federal Power Commission of it refused or failed to comply with all of your rules and regulations regarding production and gathering and processing? A. They haven't failed to comply with our rules as far as production and processing or gathering, no.

Q. You stated here the other day that if the Federal Power Commission took jurisdiction over Phillips— A. (Interrupting) I don't believe I testified that—

Q. (Interrupting) May be you didn't. I mean it has been said here. You haven't said that, let's cut it short that way? A. I haven't said anything like that on the record. I don't believe I have.

Q. I appreciate it, but I have read so much along that

[4251]

line that maybe I just picked it up and thought you had. I appreciate your correcting me. In addition to Texomas Natural Gas Company, Canadian River Company, Panhandle Eastern Pipe Line Company, I'm going to read some others who are producers and gatherers in the State of Texas as I understand it and who also operate under your jurisdiction and are likewise natural gas companies—I'm

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going to read them all and ask you to say whether you have experienced any difficulty because they were regulated to a certain extent by the Federal Power Commission within the provisions of the Natural Gas Act, and those companies are Southern Union Gas Company, Texas Gas Utilities Company, Consolidated Gas Utilities Company, Northern Natural Gas Company, Arkansas-Louisiana Gas Company and Cities Service Gas Company, now, all of those companies are natural gas companies under the jurisdiction of the Federal Power Commission and we regulate certain of their functions? A. You just regulate them insofar as fixing the gate rate.

Q. Don't tell me how far we do because I'd have to differ— A. (Interrupting) No I'm asking you that, aren't you regulating them just insofar as fixing the gate rate, you are not regulating them insofar as production, processing and gathering?

Q. No; as I said the other day, so far as I know we will never understand to have anything to do with production. A. Then certainly there hasn't been any conflict there.

[4252]

Q. But regardless of what our jurisdiction has been across the board on all of these companies, you have never found any of them attempting to hide behind any of our orders as a reason for avoiding your regulations? A. No, sir, I believe I stated we haven't had any conflict, so far as production and processing and gathering was concerned. As I state, so long as you haven't regulated them as far as the production and processing and gathering of gas—

Q. (Interrupting) But so far as Canadian River was concerned we did— A. (Interrupting) Is that a gate rate or what? I don't know.

Q. It is a gate rate, but included in the price at the gate were all of their costs up to that point, but the only point I am asking you about is not to discuss the principles we follow, whether they are right or wrong, but what I'm asking you is the result of that, what we did, has never interfered in any way so far as you know with the exercise of your proper authority in the State of Texas? A. No, sir; if they would refuse to follow a rule or regulation we'd shut them in as any other company.

Q. And when you shut in their wells you never heard the Federal Power Commission claiming they had any authority in that regard? A. No, sir.

[4253]

Q. Or as to the spacing of wells? A. No, sir.

Q. Or as to the allowables out of any wells? A. No, sir.

Q. In addition to those I have given you there some in the State of Texas that have gathering lines and gasoline plants and I think in questioning Mr. Murray, I mentioned three gasoline plants of the United Gas Pipe Line Company, do you recall those? A. I believe you mentioned Augua Delces, Refugo and Carthage, yes.

Q. They have the gathering lines at the gasoline plants? A. Yes, sir.

Q. And United Gas Pipe Line, you know, is a natural gas company under our jurisdiction. As far as you know, nothing that the Federal Power Commission has done in

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its regulation of United Gas Pipe Line has interfered with your proper authority and regulation of these gasoline plants, or gather lines or anything, has it? A. The same answer I gave before would be the same in this case in that insofar as gathering and processing and production of gas there hasn't been any conflict, no.

Q. There hasn't been any conflict at all, so far as you know? A. No, no, to date I don't know of any.

Q. Well, of course, somebody could get off base in the

[4254]

future, you know.

Q. El Paso Natural Gas Company also has a small plant in Texas, does it not? A. In the San Salvador field in Southwest Texas.

Q. And I presume you have been getting along all right with them in the regulation of their gathering and processing down there? A. Well, we have in a fashion, yes.

Q. Are you having any trouble with them? A. That is not to put on the record.

Q. But it isn't the result of any conflict with the rules and regulations of the Federal Power Commission, is it? A. No, sir, it is just our jurisdiction of production, gathering and processing.

Q. It comes under that and you have a little difficulty with them as you do with others from time to time? A. Yes, sir.

Q. But it is not the result of a conflict between your jurisdiction and the jurisdiction of the Federal Power Commission? A. No.

Q. Are you familiar with the operations of the West Texas Gas Company? They have a gasoline plant they call Wilhelm plant in West Texas, in the West Panhandle, not West Texas? A. Yes, sir.

Q. And they have gathering lines and a gasoline plant?

[4255]

A. Yes, sir.

Q. Would your answer be the same with respect to them so far as any conflict with— A. (Interrupting) That is correct, yes, my answer would be the same insofar as the production, processing and gathering of gas.

Q. And West Texas Gas Company, I presume you know, and if you don't know, I'll state that the orders of the Federal Power Commission will show it is a natural gas company and subject to its jurisdiction? A. I didn't know that company was under that jurisdiction.

Q. I mean it shows— A. (Interrupting) If your record shows that, then it is.

Q. I mean to say, though, it shows how completely you can operate in your sphere and never be concerned with the regulation of the Federal Power Commission in its proper sphere, isn't that right? I mean when you didn't know about it? A. Insofar as the jurisdiction is concerned, the Federal Power Commission staying in its bounds so far as fixing the gate rates on transmission lines and the Railroad Commission staying in its end of production, gathering and procession is concerned, I'll agree with you.

Q. The Federal Power Commission has been in exist-

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ence for about 13 years and they haven't extended into your domain yet, have they?

[4256]

A. That is why we are here, a fear of what they might do.

Q. It is the producers and gatherers we are talking about and we are— A. (Interrupting) Yes, but only insofar as fixing the gate rates on the transmission lines, but during those 13 years you haven't been down here telling us as to what we should do or haven't done anything concerning production, gathering or processing of gas.

Q. Well, is there any thought now that we are going to make the practice that they have— A. (Interrupting) That is what our fear is.

Q. But it is only fear, it is not based on any experience in the past? A. We can just—

Q. (Interrupting) It is just fear? I mean let's call it concern. A. That is right, it is our concern, because that fear exists in a number of producers who are now having large gas reserves in the neighborhood of from 13 to 15 trillion feet and the public cannot avail themselves of those reserves because that company is afraid of the Natural Gas Act.

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[4260]

Q. (Interrupting.) You are saying the higher the price is at the wellhead the more conservation we will have and the more gas will be used? A. Yes, sir. Let me say this, that if the purchaser is willing to pay five cents and the

gas at the wellhead was two cents, I believe he wouldn't have any trouble at all to buy all the gas he wanted to in that field or any other field at five cents.

Q. All right, but I suggest to you that you really mean the price at some delivery point where there is a purchaser willing and able to buy it at rather than the well-head price. A. I am speaking only of wellhead price.

MR. TULANE: Mr. Examiner, may I have my statement read back and I request the witness to state whether or not he agrees with it.

[4261]

PRESIDING EXAMINER: Read the question.

(The last question was read by the reporter.)

A. No, when you say delivery point, you are assuming that if the purchaser at the wellhead had gas to sell and over here was a gatherer—

BY MR. TULANE:

Q. (Interrupting.) Just a minute. Purchaser who wants to buy gas. A. All right, a purchaser who wants to buy gas, if he wants to get that gas from this well, he either has to lay the gathering line to get it or the producer would have to lay the gathering line.

Q. I understand that perfectly. A. All right. So the purchaser who wants to pay five cents for the gas and lay that line, he can get that gas all he wants to.

Q. I don't doubt that, but if the producer lays the gathering line and has to bear the expense and delivery of that gas to some point on the line, then that is not a well-head price, is it? A. That is right, that then becomes a part

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of your production system. You can't segregate the gathering system from the well, because to produce the gas into the line, you must lay a gathering line.

Q. Exactly, and when you say the price influences

[4262]

conservation, you mean that the price at this transfer point must be such that whoever has to bear the cost of the gathering system did pay for it? A. Certainly; it isn't feasible—

Q. (Interrupting.) That is enough.

MR. CRENSHAW: Let him explain his answer. He is not confined.

MR. TULANE (interrupting): Mr. Examiner, would you allow me to ask my questions and allow counsel to bring what he wants to up in redirect examination?

PRESIDING EXAMINER: I think you can do that.

MR. CRENSHAW: He wanted to qualify his answer—

MR. TULANE (interrupting): He said certainly, and that was all I wanted.

PRESIDING EXAMINER: Do you want to qualify your answer?

THE WITNESS: I certainly say it would not be feasible for him to go get the gas to market unless he can go ahead and lay the gathering system.

PRESIDING EXAMINER: Read the question and answer, please.

(The next to the last preceding question and answer were read by the reporter.)

BY MR. TULANE:

Q. So then you are not really talking about wellhead

price when you say that price influences conservation? A. Well, if I understand you, you want me to cut

[4263]

off the gathering of gas from the wellhead gas?

Q. No, I want you to put it in. A. All right, if I put it in the only way you can get this gas into any line is for that price to be such that he can afford to lay those lines.

Q. Yes, but the point is this, that if the owner has had to pay for the gathering lines he gets one price. If the collector pays for the gathering lines he will not pay as high a price, will he? A. That is correct, but it is synonomous there. I can get the gas for two cents a thousand if I don't have to make a big investment to lay the gathering lines, but if I am going to have to lay the big gathering lines, I'm going to have to get five cents a thousand. It is immaterial.

Q. But when you lay the lines yourself you are delivering the gas at a point away from the wellhead, are you not? A. To the processing plant.

Q. And you are getting wellhead plus transportation for the length of the gathering line? A. I don't see how you can cut one off from the other.

Q. I think the record is clear on it anyhow. May I ask this question, then, when you say wellhead price, you do not necessarily mean the price paid for a sale at the head of the well?

[4264]

A. I mean the wellhead price would be the arm's length contract.

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Q. I don't believe that answers the question. A. All right, I'll answer it. That is correct. I mean that what he could get at the wellhead, and if he has to lay the lines, then the producer will include that as his wellhead price.

Q. Is it your position in the conservation matters that the price which promotes conservation best is that price which encourages the use of all marginal properties, including marginal wells and marginal methods of production such as the use of compressors and vacuum system and such? A. That is correct; I believe in a price that would create the greatest ultimate recovery of gas for mankind or production of oil for mankind.

Q. You are not trained as an economist, are you, Mr. Baumel? A. No, sir, I am just a poor engineer.

* * *

[4277]

Q. If the Federal Power Commission assumed jurisdiction over Phillips and attempted to regulate the rate at which Phillips sold at the Sherman and Hansford plants—

MR. McALLISTER: The Sherman.

BY MR. TULANE:

Q. The Sherman. Would that in any way interfere with your allocation and proration orders? A. It wouldn't interfere with our allocation and proration orders, no.

* * *

[4286]

Q. I don't think that is responsive. I asked you solely if you are not regulating price today— A. (Interrupting) I think we went over it that at the present time the legis-

lature never has given the Railroad Commission power to set any price, minimum or maximum or whatsoever, so how can you ask me whether or not it is going to conflict. It wouldn't conflict if we don't have any power to set the price.

* * *

[4314]

T. E. SMILEY

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Sparks

* * *

[4331]

MR. SPARKS: Let the record show that in support of the tender of Exhibit No. 149 the witness, if permitted to do so, would testify as follows:

> "The first column of figures under the heading '35 Natural Gas Companies in Southwest', was obtained from the files of F. P. C. in Washington, D. C., from the annual reports Form 2 except where otherwise stated. All Class 'A' and 'B' Natural Gas Companies reporting to F. P. C. which operate in the seven southwestern states of Arkansas, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas are included and are listed on the third page of the exhibit. The Public Service Corporation of Texas was included in

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Class 'C' and 'D' companies during 1946 and 1947 and in class 'A' and 'B' companies in 1948 and 1949 and was included in the exhibit for all four years. Texas Gas Transmission Corporation was not included in the statistics published

[4332]

by F. P. C. for 1946 and 1947 and is therefore not included in the exhibit for those years but its predecessor, Memphis Natural Gas Company was included. Michigan Wisconsin Pipe Line Company, Renosa Pipe Line Company and Texas Eastern Transmission Corporation did not file annual reports with F. P. C. for 1946, therefore are not included in the exhibit for that year.

"The 'Net Investment' shown for the Natural Gas Companies is the 'Gas Utility Plant less Reserves' at the end of each year as shown in the statistics published by F. P. C. each year, and does not include Other Utility Plant or Other Property.

"The amounts shown as 'Land, Geological and Geophysical Expenditures' for the Natural Gas Companies represents the debits to account 142.1 'Preliminary Natural Gas Survey and Investigation Charges' as shown in schedule 240-A of the annual reports to F. P. C. by each company for each year plus the total of account 513 'Other Exploration Costs' as shown under Column 'F' of schedule 472 in the annual reports to F. P. C. by each company for each year. Account 513 has been changed to account 739.4 in the present

classification of accounts. From the reports it would appear that very little of this is actual geophysical surveys or

[4333]

geological investigation of possible new producing areas.

'The percents shown are the ratio of each class of expenditure for each year to the net investment shown for such year. For example, Land, Geological and Geophysical expenditure for the year 1946 for the Natural Gas Companies are shown as $0.17 which is in Millions of Dollars and therefore represents expenditures of $170,000. This amount was divided by the investment of $753,900,000 which furnishes the percent shown as 0.02% in other words, 2/100 of 1%. All other percentages on the table for the Gas Companies, 30 Oil Companies and for Phillips Petroleum Company were determined in the same manner.

"Dry Hole Expenditures represents the total of account 511 'Non-Producing Well Drilling' as shown in column 'E' of schedule 472 of the annual reports to F. P. C. by each company for each year. Account 511 has been changed to account 739.2 in the present classification of accounts.

"Delay Rentals represent the total of account 510 (new account 739.1) as shown in column 'C' of schedule 472 in the annual reports to F. P. C. by each company for each year.

"Additions to Leasehold Investment was obtained

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from the annual reports of each Gas Company for each year by taking the total of the additions from column 'D' of schedule 400 for accounts 330.1 'Natural Gas Producing Lands'. Since many companies reported transfers from non-producing leasehold investment as an adjustment, the debits in the adjustment column of schedule 400 are also included unless they could be identified as a mere accounting reclassification or the result of a merger of companies. The gross additions for undeveloped leases is not shown in the annual reports, therefore the net increase or decrease was obtaind by taking the difference between the balance at the end of each year and the balance at the end of the preceding year. Such balances were obtained from schedule 405 'Gas Plant Held for Further Utility Use' and were checked with amounts shown in schedule 479 'Natural Gas Land Acreage' as the cost of non-producing acreage in the annual reports to F. P. C. each year. Decreases in this amount could result from transfers to producing or from abandoned leases, sales, etc. Since some companies charged abandoned leases directly to expense whereas others provided a reserve for a portion or all of abandoned leases, it was necessary, in order to obtain the actual abandoned leases for each year, to take the total of account 512 'Abandoned

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Leases' (new account 739.3) from schedule 473 less the provisions for abandoned leases as shown in sched-

ule 416 plus the abandoned leases charged to account 250.3 'Reserve for Abandoned Leases' as shown in schedule 416 all from the annual reports to F. P. C. each year. This total of abandoned leases was added to the total additions to producing leases and the net change in non-producing lease investment; and from this total was deducted exploratory costs cleared to gas plant accounts as shown in schedule 240-A since such amounts duplicate amounts already included in Land. Geological and Geophysical expenditures. The total thus obtained should represent the total additions to leasehold investment, however, we noted that certain companies still resulted in a net decrease rather than an addition, therefore another trip to Washington was made to investigate these instances. It was found that sales of leasehold investment were often not reported in detail in the annual reports. Every effort was made to locate the cause of such decrease in leasehold investment by investigating docket files, reclassification entries, files of entries for purchases, sales mergers and etc. In some instances no explanation could be found and in such cases the net decrease for such companies for that year was eliminated so as not to reduce the

[4336]

expenditures of other companies. In the course of making this investigation, we also attempted to eliminate any additions due to mergers or liquidations of affiliated companies since such items would not represent

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actual expenditures. The only major item of this nature located for the 35 Southwestern Natural Gas Companies was the liquidation of Sagamore Oil & Gas Company by the Union Gas Systems, Incorporated involving producing and non-producing leases in the amount of $472,501.26 and gas wells in the amount of $285,-817.40 during the year 1949. The files of the Federal Power Commission in respect of purchases and acquisition of properties is not complete even though the Gas Companies are required to file copies of such entries. However, it is believed any other acquisitions of producing properties were merely normal purchases of a small number of wells or leases.

"Total Exploration Costs (Including Leasehold Additions) represents the sum of the expenditures for Land, Geological and Geophysical, Dry Holes, Delay Rentals and Additions to Leasehold Investment.

"Cost of Drilling and Equipping Producing Wells represents the additions to such investment as shown in column 'D' of schedule 400 for accounts 331.1 'Gas Well Structures', 332.1 'Producing Gas Wells—Well

Construction' and 332.2 'Producing Gas Wells—Well Equipment'. Debit adjustments to these accounts shown in column 'F' of schedule 400 were also included. The additions by Union Gas Systems, Incorporated due to the liquidation of Sagamore Oil & Gas Company were eliminated from such additions as explained regarding additions to leasehold investment.

"Total Expenditures for Exploration and Development is the sum of the Total Exploration Costs and the Cost of Drilling and Equipping Producing Wells.

'30 OIL COMPANIES'

"The data for the 30 Oil Companies was obtained from the 'Financial Analysis of 30 Oil Companies' published by the Chase National Bank of the City of New York, Petroleum Department by Joseph E. Pogue, Vice President and Frederick G. Coqueron for each year. This is a statistical publication which is widely accepted in the industry as accurately portraying the statistical data published therein.

"The companies included were not chosen by us, but are all of the companies included in the study as stated in the report and are apparently considered by the authors as representative of the industry. Data for individual companies is not shown in the report. The net investment represents the net investment (less reserves) at the

[4338]

end of the year for all departments including Refining, Marketing, Pipelines and etc., as well as Producing, within the United States as shown in the report for each year, but does not include investments by such companies in foreign countries.

"The report for the years 1946 and 1947 did not furnish a detail of exploration and development costs but the report for 1948 included such expenditures in

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Table 17 on page 16 which is shown separately for each of the years 1946, 1947 and 1948 in the following detail.

"Acquisition of New and Renewal Leases and Cost of Drilling and Equipping Wells (including dry holes)

"Exploratory Expense (including land, geological and geophysical activities)

"Lease Rentals.

Total Expenditures

The detail of certain expenditures such as dry holes was not available from the report. The expenditures for the year 1949 were obtained from Table 15 on page 14 of the report for 1949 which shows the same data as for the 1948 report.

'PHILLIPS PETROLEUM COMPANY'

"All of the data for Phillips Petroleum Company was

[4339]

obtained from the books, records and statements of the Company kept in the ordinary course of business. The net investment shown is the total net investment for all departments at the end of each year as shown in the Financial and Operating Statement of Phillips Petroleum Company and Subsidiary Companies for December 31, of each year. The investment shown represents the total investment wherever located including

foreign countries and includes all consolidated subsidiaries. It does not include subsidiaries for which the company did not furnish all capital requirements. The assets of such unconsolidated subsidiaries are considered immaterial in relation to the total assets and business of the company and its consolidated subsidiaries.

"In 1946 there were no unconsolidated subsidiaries. In 1947, Wasatch Oil Refining Company, Idaho Refining Company and West Edmond Oil Company were the only unconsolidated subsidiaries. In 1948 and 1949 the only wholly owned unconsolidated subsidiary was West Edmond Oil Company. That company formerly had two subsidiaries but they were liquidated in October, 1949. The only unconsolidated wholly owned subsidiaries in 1950 were West Edmond Oil Company, Continental Consolidated Corporation and its subsidiary, Continental

[4340]

Corporation.

"Land, Geological and Geophysical Expenditures are the total of such expenditures in the United States and Canada as shown by the records of the Company. It does not include expenditures in other foreign countries such as South America.

"All other classes of expenditures for exploration and development shown on the exhibit are likewise for the United States and Canada, but excluding South America and they represent the total of such expenditures.

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"Dry Hole Expenditures represent the total dry hole expense as shown by company statements including dry hole contributions less a minor amount of such dry hole contributions representing cost of leases contributed. The expenditure for such leases were made at the time the leases were acquired as an addition to leasehold investment.

"Delay Rentals represent the total of such expenditures under oil and gas leases as shown by company statements for the United States and Canada but excluding South America.

"Additions to Leasehold Investment represent the total expenditures for producing and non-producing leases as shown in the Statement of Funds Provided and their Application included in the Financial and

[4341]

Operating Statement for each year and from supporting records. It includes the cost of all new or renewal oil and gas leases, options, permits and etc., including Canadian but not including South America.

"Total Exploration Cost (Including Leasehold Additions) is the sum total of the foregoing expenditures.

"Cost of Drilling and Equipping producing wells represents the total of the capital expenditures as shown in the Statement of Funds Provided and their Application and supporting records of the company for lease equipment and intangible development costs from which we have excluded dry holes since they are stated separately in the exhibit.

"Total Expenditures for Exploration and Development represents the Total Exploration Costs plus the Cost of Drilling and Equipping Producing Wells."

PRESIDING EXAMINER: The exhibit will be appropriately marked excluded, offer of proof, exception, and filed by the reporter with the Secretary of the Commission.

* * *

[4484]

ELMER CAPSHAW

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Green

Q. State your name, please, sir. A. Elmer Capshaw .

Q. By whom are you employed, Mr. Capshaw? A. I am employed by the Corporation Commission of the State of Oklahoma.

Q. What is your business or profession? A. I am a petroleum and natural gas engineer.

Q. Will your briefly state on the record your educational background as a petroleum and natural gas engineer? A. I was graduated from the University of Oklahoma with a bachelor's degree and a masters degree. I did a considerable amount of work toward a doctor's degree at the

[4485]

University of Oklahoma. I have done a little work in the Colorado School of Mines. I am a registered petroleum

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and natural gas engineer under the laws of the State of Oklahoma.

[4486]

Q. How long have you been employed by the Corporation Commission of Oklahoma? A. Almost 17 years.

Q. As petroleum engineer? A. Most of that time, yes, sir, as a petroleum engineer.

Q. During that period of employment what experience have you had in the practice of your profession generally? A. Well, generally I have spent 17 years in the active enforcement of oil and gas conservation laws in the Corporation Commission of the State of Oklahoma and the orders of the Corporation Commission.

Q. Generally, are you familiar with the development of the conservation laws of Oklahoma and the orders of the Corporation Commission with regard to conservation? A. Yes, sir. I have been closely associated with the development of the law, and of the orders and purposes and general procedure of the Corporation Commission in the establishing its oil and gas conservation program.

Q. Are you familiar with the production history of gas in the Hugoton gas field? A. Yes, sir, I am quite familiar with the Oklahoma portion of that field and the Kansas portion, and I am somewhat familiar with the Texas portion.

Q. Are you charged with the duty of assisting in the enforcement of the orders of the Oklahoma Commission in regard

[4487]

to conservation of gas? A. Yes, sir, I am.

Q. Have you done that in the Hugoton gas field? A. Yes, sir, I have spent very much of my time and work in that field and in regard to that field.

* * *

[4518]

Q. From your information of the Guymon-Hugoton field in your opinion what would be the abandonment pressure of the wells in that field? A. I would expect the abandonment pressure to be about fifty pounds.

Q. What consideration do you take into account in arriving at that figure?

MR. McALLISTER: May I have that question. I just can't hear these question at all, Mr. Examiner.

PRESIDING EXAMINER: Read the question, please.

(Question read by the reporter.)

THE WITNESS: This is such an enormous reservoir that unquestionably the abandonment pressure is going to be low, and how low it will be depends on just one thing, and that is what the price of gas is in the field at the time

[4519]

the wells are abandoned.

BY MR. McALLISTER:

Q. You say at the time the wells are abandoned? A. Yes, sir. Gas is going to be produced there so long as companies can produce it and sell it at a profit and price is a direct determinate of whether or not they can sell it at a profit.

Q. At the present rate of production how long down the road is that going to be? A. Before that field is abandoned?

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Q. I mean at the condition you speak of where you reach that point of fifty pounds. A. My opinion is it is going to be somewhere between twenty-five and forty years.

BY MR. SPARKS:

Q. Do you mean before the entire field is abandoned? A. Before the field is abandoned, yes, sir.

Q. Not before any well or group of wells might be abandoned? A. No, sir, not at all. Some wells have been abandoned, in a sense have been abandoned, the particular producing well has been abandoned and new wells have been drilled to replace them.

BY MR. GREEN:

Q. Does Oklahoma have a compulsory unitization law whereby

[4520]

oil and gas fields are compulsorily unitized and produced? A. Yes, sir, it does.

* * *

[4524]

Q. Are you familiar with the well spacing orders of the Corporation Commission? A. Yes, sir.

Q. Do you understand generally how they arrive at the size and shape of the various sizes and shapes of the drilling

[4525]

and spacing units in these fields, gas fields, included? A. Yes, sir.

Q. Does the price of gas have anything to do with reference to the size and shape of the drilling units that might be established?

* * *

THE WITNESS: The size and of the spacing unit is very greatly effected by the price.

BY MR. GREEN:

Q. The price of what? A. Of gas in that field, for this reason, if the spacing units are made too small in proportion to the price paid for gas in that field, the operator would be unable to drill all the locations he must drill and realize a profit if the price were not high enough to pay for drilling all those extra wells. In other words, in the Hugoton field our spacing order calls for 640 acres approximately. At the time we made that order there was contention by some of the gas companies that wells ought to be drilled on each quarter section. That would have necessitated the drilling of four times as many wells to drill up this field,

[4526]

if the Commission had followed that argument that was presented by some of the producers. Unquestionably our experience in that field is going to show that 640 acres will effectively drain it, and there would have been a great economic loss in drilling more wells there, particularly four times as many wells. The price of gas effects conservation of the gas in another way.

* * *

[4529]

Q. In the Hugoton area do you have large areas of low productivity around the edges of the pool? A. That is true. At least, that is indicated from all the information we have.

* * *

Q. Let me ask this question, unless wells are drilled in those areas of low productivity will gas be left in the

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ground that might otherwise be recovered? A. Yes, sir, some gas will be left in the ground that will not be recovered if wells are not drilled in the low productive area surrounding the pool.

Q. Do you have large areas of low productivity in the

[4530]

field?

* * *

THE WITNESS: The Hugoton pool unquestionably has gas for a number of miles out beyond where any wells have been drilled at the present time. Unquestionably there could be eight or nine, possibly a thousand more wells drilled on 640 acres in that field that would encounter some gas in the formation. It is my belief that there will be immediately drilled up to 1,200 wells in the pool, and possibly 300 more may be drilled provided the companies think they can pay them out in this outside low productive area. If the price were high enough that number might be increased to 2,000 wells instead of 1,500 wells.

BY MR. GREEN:

Q. So whether or not the wells are drilled depends entirely upon the price of gas, the economics of the situation at the time? A. It certainly does.

* * *

[4531]

RAY C. JONES

was called as a witness, and having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. Green

Q. State your name, please, sir. A. Ray C. Jones.

[4532]

Q. Where do you live, Mr. Jones? A. Oklahoma City.

Q. What official position do you hold? A. Member of the Oklahoma Corporation Commission.

Q. How long have you been a member of the Commission? A. Since January, 1947.

Q. Prior to that time did you hold any official position with the State of Oklahoma? A. A member of the State Senate.

Q. For what period of time? A. From January 1935 to January 1947.

Q. Will you briefly relate the duties of the Corporation Commission of Oklahoma with reference to what duties they perform for the state? A. Well, the duties set out by the constitution of the State are primarily to regulate public utilities such as transportation companies, transmission companies, telephone and telegraph companies, gas and electric companies, as to their rates and practices, motor carriers, and by statute additional duties have been conferred upon the Commission such as the regulation of the oil and gas business in the state. That generally is what we do.

Q. The Corporation Commission of Oklahoma intervened in this proceeding in operation to the Federal Power Commission assuming jurisdiction in this case, did it not?

[4533]

A. That is right.

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Q. How many members of the Commission do you have? A. Three members.

Q. That action was taken after a vote and discussion by the members of the Commission, was it not? A. That is right.

Q. Will you state briefly the reason for the Corporation Commission intervening in opposition to the Federal Power Commission asserting jurisdiction in this case.

* * *

THE WITNESS: Well, the Commission feels like if the Federal Power Commission assumes jurisdiction in this particular case it would probably assume jurisdiction as to the regulation of rates, which would involve the price of gas at the wellhead and any gas that went into interstate commerce which might conflict with our jurisdiction as to our orders that have fixed a mimimum price for gas in the Guymon-Hugoton field. That is the chief reason why we have intervened.

* * *

[4535]

Q. The Corporation Commission fixes the size and shape of the space and drilling units, do they not, in Oklahoma in gas and oil fields? A. Yes, they do.

Q. Were you a member of the Commission at the time the seven cent price order was made by the Corporation Commission of Oklahoma? A. No, I wasn't.

Q. That happened in December just prior to your taking office in January, did it not? A. Yes.

MR. McALLISTER: May I hear the question, please.

PRESIDING EXAMINER: Read the question.

(The question was read by the reporter.)

THE WITNESS: That is correct.

MR. McALLISTER: Thank you.

BY MR. GREEN:

Q. Well, in fixing the size and shape of the spacing and drilling units does the Corporation Commission take into consideration the price of gas or the economics of the drilling of the wells? A. Yes, sir.

[4536]

Q. As one of the factors?

MR. McALLISTER: Mr. Examiner, there is two questions in that and I ask the witness be required to answer either one or the other or both and identify which. Take into consideration the economics, take into consideration the price of gas.

PRESIDING EXAMINER: Let's break it down into two questions.

BY MR. GREEN:

Q. Do you take into consideration the economics in fixing the size of spacing regulations? A. Yes, sir.

Q. Is price of gas a necessary factor in determining whether or not the economics of the situation justifies a particular size and shape of the spacing and drilling unit? A. It enters into the size of the spacing unit, yes. It might possibly enter into the shape, more paricularly the size.

MR. McALLISTER: Now we have a conclusion, Mr. Examiner. May we have an understanding what all the elements are that enter into economics because he said price is one of the things. What are the others?

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PRESIDING EXAMINER: Tell us what the other things are.

BY MR. GREEN:

Q. What are the other elements that you take into consideration in fixing the size and shaping of spacing and drilling units? A. We take into consideration the area to be drained, the

[4537]

size of the unit that can efficiently be drained by one well. We take into consideration the correlative rights of other operators and other owners and other interested parties. We try to fix these spacing units so that they will not only be economically sound they will actually efficiently drain the formation and still protect the adjoining owners of leases and the other interested parties.

* * *

BY MR. McALLISTER:

Q. What specific changes have you made with respect to the size, spacing and what-not with respect to the Guymon-Hugoton field since 1948? A. What specific changes have we made?

Q. In the rules with respect to the size, shape and spacing as to a drilling unit. A. So far as I know we have made no changes.

Q. You have made no changes whatsoever? A. Since 1948.

* * *

[4539]

BY MR. TULANE:

Q. If at such time as your minimum rate is set at one

[4540]

level and the federal rate is set at any point above that, at that time could there be any interferenc with the jurisdiction of your Commission. A. I can think of none right at this time.

Q. And the only possible conflict could arise if you desired to raise your minimum above the rate that had been fixed by the Federal Power Commission? A. I don't know whether that would be the only posible conflict. I don't know. I couldn't answer that question right now.

Q. Do you now personally know of any other possible conflict? A. Not without giving it some thought I can't think of any.

* * *

[4676]

ELMER CAPSHAW

resumed the stand, and having been previous duly sworn, was examined and testified further as follows:

Cross-Examination by Mr. McAllister

[4712]

Q. I believe you stated yesterday if a sufficiently high price could be established for gas at the well head in that area, the marginal area, all of that marginal gas could be recovered. A. No, I didn't make that statement, but that more of that marginal gas would be recovered.

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[4713]

Q. More of that, with a higher price per Mcf at the well head? A. Yes, sir, with a higher price, in all probability more of that marginal gas would be recovered.

Q. And as you moved the price on up, the further you can go out into the thinner sands and with less productivity per acre? A. That is correct.

Q. And it is just a matter of judgment how high the price would have to be to recover a given quantity of that marginal gas? A. Yes, sir.

Q. And that price would have to be a price related to the cost of recovery. When I say recovery I mean the cost of drilling the well or carrying or conveying that gas to a point of useful consumption. A. It would unquestionably be related to the cost. Companies will drill a well only if they can expect to get a return on their investment, and I don't think they will drill them purposely and expect to lose money on them.

Q. No, that has not been your experience in the oil and gas business? A. No, sir, it hasn't.

Q. As an engineer having responsibility with the Oklahoma Commission, it isn't your contention, is it, that

[4714]

the gas price for the whole field should be raised so high that it will enable the marginal lands to be produced at this time, or is it? A. The question of how high the price should be raised, of course, would involve whether or not it was high enough to develop marginal acreage wherein the production of the gas would be worth while.

Q. Let's put it this way, if it took twenty cents an Mcf to assure drilling in the marginal acreage at the well head, should that be the measure of the price that would be fixed for the entire Guymon-Hugoton field? A. No, sir, I don't think it should. If it took twenty cents at the well head, in order to get all marginal acreage drilled, the question should be, would the additional gas recovered be worth the raise in price?

Q. It is an economic study that can't be answered. A. That is right. It certainly can't be answered specifically, because you never know the exact tax and in the first place you don't know exactly how much more gas you are going to get, but you've got to make some kind of an estimate if you are going to set a price for that specific purpose.

• • •

[4716]

Q. What you have said about the possibility of drilling wells in the marginal acreage it is based entirely upon

[4717]

the assumption that a sufficient price would be fixed to justify that drilling? Is that right? A. Not necessarily a sufficient price be fixed, merely that—

Q. (Interrupting.) That they get a sufficient price? A. Yes, sir, merely that they get a sufficient price.

Q. And you are not now saying what that price would have to be? A. No, sir, I couldn't say what that price would have to be. It would all depend on circumstances. It may depend upon the time.

Q. You mean time— A. (Interrupting.) General prices may be entirely different now than they were ten years ago.

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Q. Or ten years in the future? A. That is right.

Q. All you are saying is that there is a relationship between, there must be a relationship between, the gas that is recovered and the cost of drilling the well. A. That is true.

Q. And as you go on out further the price has to be higher as the marginal lands and gas becomes more skimpy per acre, why, it takes a higher price to justify drilling. A. I wish you'd read that question. The wording didn't sound as if I could answer it.

[4718]

PRESIDING EXAMINER: Read the question.

(The question was read by the reporter.)

THE WITNESS: I can't answer that question without an explanation. He says as you go out further the price has to be higher. There seems to be an implication that a higher price is going to be paid for the outside drilling, the gas that comes from the outside drill, than is paid in the center of the field, and I am not anticipating such a situation at all. There must be a higher price prevailing in that field or they will not go further out or at least there will be limitations on how far they go out.

* * *

[4720]

Q. Am I to understand that it is your belief or opinion that the price fixed for a field should be sufficiently high that it will enable the least productive wells that may be drilled to pay out? I mean reasonably, not the one that hasn't anything in it, but I mean the price ought to be suffi-

ciently high to enable a person to produce and pay out on a commercial gas well? A. Yes, sir.

Q. And regardless of what that price is, whether it is eight or ten or twelve or twenty cents, that ought to be the price? A. The price ought to be sufficient to enable the drilling of a well into a source of supply in producing that gas in any case.

Q. And it is on that basis that you say these wells should be drilled in the marginal acreage to recover the gas, the wells ought to be drilled and the price ought to be high enough to justify the drilling of the wells? A. The price ought to be high enough to justify drilling some marginal wells, of course.

Q. All the marginal acreage? A. Your marginal acreage may be so poor that you couldn't justify a price high enough to force the drilling of that marginal acreage. That is easily possible.

* * *

[4723]

Q. And it is your opinion, is it, that the price of the gas should tend to be so high that it will permit the development of the marginal acreage by drilling of wells and that that cost of the marginal drilling for the recovery of gas should be the determining factor in fixing the price for the field as a whole? A. It certainly should not be the determining factor. It would only be one of the many factors. That should be taken into consideration, the additional gas that would be recovered by drilling marginal acreage, it should be one factor taken into consideration.

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Q. Not the only factor or the most important factor? A. No, sir, not the most important.

Q. And the consideration might be such that it would not influence the total over-all price at all if the gas to be recovered in relation to the total gas in the field would not justify a higher price?

MR. McALLISTER: Will you read that question. If you have any question about the question before you answer it, I'll be glad to clarify it for you.

[4724]

THE WITNESS: Yes, sir.

(The question was read by the reporter.)

BY MR. McALLISTER:

Q. I meant by that the gas to be recovered in the marginal acreage in relation to the total in the field would not justify a higher price? A. I think the additional gas recovered might, under certain circumstances, not be justified by raising the price.

Q. Or that the amount to be recovered wouldn't justify raising the price? A. That is right. I'm sure if you went far enough out to the outer edges you wouldn't be justified in trying to recover that gas by raising the price.

* * *

[4763]

RAY C. JONES

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

Cross-Examination by Mr. McAllister

* * *

[4765]

Q. In your testimony yesterday you said that price was an element in determining the size of the drilling unit? A. I said what, now?

Q. Price was an element to be considered in determining the size of the drilling unit. Do you recall that? A. Yes, sir, I think it is, yes, sir.

Q. What is that? A. I don't know whether that was considered at the time it was spaced, because I wasn't on the Commission, but I think price definitely enters into the economics of drilling a well, and in the size of the unit.

Q. Correct. Whether it is on 40 acres 160 acres or 640 or larger? A. Yes, sir.

Q. With the size established of 640 acres, and that to remain constant for the future, I mean so far as the present indication is concerned, the drilling of a well on that unit today is governed by the rule established by the Commission and not by the price? A. Yes, sir, I think the price probably entered into it.

Q. Do you know? A. I don't know. I couldn't say because I wasn't a member of the Commission at the time, but it was our custom to consider price.

[4766]

Q. Well, price in relation to what? A. Price in relation to the fixing of spacing units in connection with the economics of the venture.

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Q. I mean the economics of the venture would involve the cost of drilling the well, or a well? A. A well.

Q. Well, there is a wide variation in that? A. Yes, sir.

Q. There is a wide variation in the volume of gas you can expect to produce from a well? A. There is a variation in the amount of gas in place, the amount you can expect to recover.

Q. How do you equate all of those, or do you? A. We usually consider the amount of recoverable oil or gas and various and sundry things enter into that.

* * *

[4770]

Q. I mean from the standpoint of conservation you have to provide that unit which will effectively recover the gas and oil underlying the structure? A. And maintain that same pattern and uniformity of size and shape throughout the entire pool.

[4771]

Q. So that there the element of consideration is the recovery of the gas or the oil? A. That is right.

Q. And price doesn't enter into it there? A. Well, it does enter into it, too, in the matter of original setup—

Q. (Interrupting) I mean you can't do anything without money, that is true— A. (Interrupting) In fixing the original pattern, we do take into consideration the economics of it.

Q. But it has been established already? A. After it is established, we don't take into consideration the price, no.

* * *

[4776]

MASON WALTERS

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

Direct Examination (Resumed) by Mr. Perdue

* * *

[4780]

Q. Each and every one of these maps or diagrams, that is to say, Exhibit 1-A, 12-A, 13-A, 14-B and 15-A which we have been discussing are corrections or modifications of maps and diagrams which have already been received in evidence in this proceeding, is that not correct? A. That is correct.

Q. And the modifications and corrections that you have made upon these maps were gained by you from maps supplied at your request by the Phillips Petroleum Company? A. That is true for—

Q. (Interrupting) Excepting Exhibit 1-A?

[4781]

A. That is right.

Q. And the information for Exhibit 1-A was gained by you from the files of the Federal Power Commission? A. That is correct.

MR. PERDUE: That is all the questions I have.

Mr. Examiner, I now offer Exhibits 1-A, 12-A, 13-A, 14-B and 15-A into evidence in this proceeding.

* * *

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[4782]

MR. SPARKS: I have no objection, Mr. Examiner.

PRESIDING EXAMINER: Does anyone else have any objection to these exhibits?

(No response.)

PRESIDING EXAMINER: Exhibits 1-A, 12-A, 13-A, 14-B and 15-A are received in evidence.

[4783]

* * *

GEORGE P. BUNN

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

Cross-Examination (Resumed) by Mr. McAllister

* * *

[4805]

Q. What would a distribution line be, then? A. That would have reference to someone who takes gas from some source and distributes it, you might even say that some of these lines in the broad sense distribute gas to the various points of disposal, but the operation in the sense of our business is gathering to those points of disposal.

Q. According to your statement that gas to the camp there could be called either a gathering or a distribution line? A. You can call them a lot of things if you want to.

Q. I mean according to your concept they would right-

fully be so termed? A. Not as we ordinarily use them and think of them in the business.

Q. This would be a gathering line distinctly and not a distribution line according to your concept? A. That is right. If we had a system of lines in a town someplace we might call those distribution lines.

[4806]

Q. And out in those camps, I suppose you have facilities there, water heaters and stoves and it is gathering lines right up to the burner tip in those camps? A. It is the gathering up to the point where the occupant uses it, yes.

Q. Well, if Phillips is the occupant in that—no, particular one is assigned there, let's say a general utility building that is operated by Phillips, it is gathering right up to the burner tip where the flame is lit? A. Yes, I'd say so, just like it would be disposal in the same sense where it is burned under the boilers in the plant.

Q. Yes, or the flare gas? A. That is correct.

Q. That is still a gathering line forty feet up in the air where the gas is vented or flared? A. That is right.

Q. Out of this Goldsmith plant? A. That is right, that is the point of disposal of that gas, and that is a required function in a number of our plants to get the gas away from the leases even if it has to be vented.

Q. By and large the determination of what constitutes gathering in any plant is based upon the contract that you

[4807]

have for disposal of the gas? A. No, I wouldn't say so.

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Q. Well, if you had to treat the gas and you do treat it, then the treater is a part of your gathering? A. That is one disposal, yes, that would be one.

Q. (Interrupting): I mean that is fixed by contract and that is the only reason you do it? A. For one disposal, but there is more than one disposal in any plant.

Q. Now, you stay down to the question I have and I think we'll make more progress. In the Crane plant, you have no obligations to remove any sulphur at all? A. That is correct.

Q. And in other plants you do remove the sulphur to a certain extent. A. In some plants we do, yes.

Q. And that sulphur removal is a part of gathering because you are required to do it by your contract of sale. A. Whenever it is a requirement for a particular contract, yes, that is the conditioning of the gas for its disposal as part of the gathering.

Q. And that is primarily, then, fixed by contract? A. Well, for one particular sale where a contract requires that, that would be true to you, but for any

[4808]

other disposal in the plant it might not be true.

Q. Well, that is true where you bring the gas back to your own camps. A. Or you vent it or burn it under boilers or return it to a lease, you may not be required to remove the sulphur, or dehydrate it.

Q. But your obligation to return to the lease is a contract obligation? A. That is correct.

Q. And because you have that obligation that makes

the lines leading back to the lease gathering lines? A. That is right, partly, part of the gas goes to our own properties and is not a contract obligation.

Q. No, but to the extent that you have a contract which obligates you to return gas to the leases, it is a gathering line because of that obligation which you must fulfill? A. Well, it is a gathering line because of the function it fulfills, whether it is in the contract or not.

Q. Well, if you sold it to somebody for lease use, would that still make it a gathering line? A. Yes.

* * *

[4872]

Q. That [Exhibit 45-B] is a plant diagram of the Sneed plant, is it not, Mr. Bunn? A. Yes, sir.

* * *

[4874]

Q. The gas that goes to the 2-inch line there, fuel gas to the office, that is a Phillips building? A. Yes.

Q. And that is one of those places where the gathering line runs, according to your concept, clear down to the burner tips? A. Yes, the gas runs to the burners.

Q. I know, but I mean the gathering lines according to your testimony is that all of those lines right up to the burner tips are the gathering lines? A. Yes, that is one of the points of disposal of the gas going to the plant.

Q. And those lines to the camp and the lines carrying fuel back to the compressor building and to the boiler house, all those lines are gathering lines? A. Yes, those are all gathering lines, because they carry part of the gas

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entering the plant to the points of disposal just as a part of the gas is disposed of in the plant by the extraction of gasoline.

Q. Well, we have not gotten that far yet. A. Well, I have. That is one of the points of disposal.

[4875]

Q. We'll follow that gas over to Panhandle and back again, but I'm talking about the 6-inch line to plant which is metered into the compressor building and also into the boiler house. A. That is what I'm talking about, because the gas in the reabsorber which, as you have pointed out has not been in an absorber before, in the 6-inch line, is an extraction of gasoline, accomplishes an extraction of gasoline from the gas in that line that moves to the reabsorber.

Q. Well, what I am referring to is 6-inch fuel gas to plant, do you see that? A. Yes.

Q. And it leads over with a take-off at right angles down to the boilerhouse? A. Yes, sir.

Q. And those gathering lines are the lines and— A. (Interrupting.) That is the correct term.

Q. The lines leading to the burner tips in the boiler house? A. Yes, up to the burners, that is right.

Q. Well, it includes the burners, doesn't it? A. I think that it is reasonable to say that gas is disposed of when it enters the burner. It is no longer recoverable, it is disposed of at that point, whether it

[4876]

burns or whether the fire is out, if the gas is flowing.

* * *

[4909]

Q. No, I'm finishing it. The gas, once the plants are in operation, represents the continuous moving and processing and handling of the gas, is that right, just as though these entire facilities all belong to Phillips? In other words, the operation is coordinated to maintain a continuous operation? A. Yes, presuming that the plants will handle gas every day, twenty-four hours a day, but they don't always do that. There may be accidental interruptions or something of the kind and there is no requirement that Panhandle Eastern should continue to deliver gas to Phillips if it ceased bringing gas to its compressor station there.

* * *

[4911]

Q. So when you begin talking about the plant running continuously except when you have these unforeseen accidents, you mean by that that this plant regularly operates and is expected to operate twenty-four hours a day three hundred and sixty-five days in the year and it

[4912]

does so operate with only very, very minor interruptions? A. Yes, I think that is a very fair statement of it.

[4913]

* * *

Q. (Interrupting) All I'm trying to say is that that gas

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[4914]

comes to you just as continuously and without interruption as if you were operating the compressors? A. Well, it comes to us continuously whoever is operating them.

Q. Whoever is operating them. Well, that is all I'm trying to get at, is that this is a coordinated operation that works as smoothly or effectively as if it was all under one roof and operated by one person? A. That is just the same as any of our gasoline plants. The producer supplies gas, and as long as he does it flows continuously to the plant. It is the same thing here, as long as Panhandle Eastern operates and the gas flows to us, why, it is all continuous and you'd say it would be coordinated.

Q. I'm not trying to get you to say you are doing a better job or poorer job than anybody else or that Panhandle is doing a better or poorer job than anybody else, but I'm trying to get you to say with respect to this operation, the coordinated operations of both are such that it is continuous and is not interrupted in the fashion which I stated a moment ago. A. I said the operation, I can say, is continuous except for very minor interruptions.

* * *

[4936]

Q. Will you turn to Exhibit 45-C, Mr. Bunn, which is a diagram of the plant lay-out known as the Gray plant? A. Yes, I have that.

Q. That map isn't quite as fancy as some of the others we have. Let me ask you this, if you are familiar with that plant lay-out there, are all of those lines which you

see there as being solid lines the gathering lines as you have defined them and as you understand them? A. As far as I can distinguish from the Exhibit 45-C the pipe lines depicted thereon as solid black lines are gathering

[4937]

lines.

* * *

[4943]

Q. You have the Independent Natural Gas Company purchase meter. Do you note the location of that purchase meter? A. Yes.

Q. Is that the point at which you deliver gas to the Independent Natural Gas Company? A. No. I believe the gas is delivered to them off the absorbers at the regulatory back pressure regulator.

Q. What kind of a line is that in there, then? Is that a gathering line between that point and the meter? A. That is Independent Natural Gas Company's line. The metering is done at the point indicated as Ind. Company gas purchase meter.

[4944]

Q. Is that line not the line of Phillips from the regulator out to the purchase meter? A. No, sir.

Q. Well, they own that line on Phillips property, then, back to the back pressure regulator? A. I think that is right. I haven't checked the lines here for a long time, but I think that is right, and that is the way the sketch indicates it.

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Q. According to your concept, then, in this case the delivering lines, the gathering lines, terminate there at that back pressure regulator? A. Our gathering lines would terminate at the point where we deliver the gas to Independent.

* * *

[5022]

Q. Now, I want to find the flare you had on Exhibit 101. It is right of the middle and above the middle of the exhibit or the picture, isn't that right, right near the arrow heading north? A. Just south of that arrow, that is one of our flares, yes.

Q. Do you have more than one flare on this picture, Exhibit 101? A. Yes.

Q. That is one of them? A. Yes.

Q. That is the one that looks like a may pole? A. Yes.

Q. And that is a gathering line?

[5023]

A. It is, yes, up to the point of disposal of the gas into the fire.

Q. Where is the other flare you have on there? A. It is right near the middle of the photograph at the bottom part of the picture, right at the edge of the darkest area.

Q. It seems to be a much higher flare line. A. That is because it is closer to you.

Q. I see. And that is a gathering line, too? A. That is right. It performs the function of disposing of gas at times.

* * *

[5078]

MR. JOFFEE: Mr. Examiner, Mr. McAllister has yielded to Kansas City to ask a few questions of Mr. Bunn at this time.

PRESIDING EXAMINER: Very well.

Examination by Mr. Joffee

* * *

Q. What is done with the gas before it is delivered to Cities Service Gas Company at the East Edmond field? A. The gasoline is extracted from it as it comes from the

[5079]

wells and leases, and it is dehydrated in at least one plant, I think in both plants where we are delivering gas to Cities Service, but I know it is in one.

Q. There are two gasoline plants operated in connection with the East Edmond field, is that correct? A. With the East Edmond field?

Q. Or do you call it the Edmond field? A. Well, there are two adjacent areas, one called Edmond and the other West Edmond.

Q. In addition to the operation of the gasoline plants and the extraction of gasoline is there not one or more compressor stations operated at that field? A. There are on the gas which is gathered in the field in connection with those plants, yes.

* * *

Q. Well, will you explain how the compressor stations are operated? A. Well, there are some of them outlying

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in the field area and some of them in the plants, but they are all operated to compress the gas prior to the extraction of gasoline.

Q. The residue gas is delivered to Cities Service Gas

[5080]

Company at about 500 pounds per square inch, isn't that correct? A. A little higher than that—

Q. (Interrupting) 550? A. It is processed a little higher than that. About 500, I think, is right, yes, at the delivery.

* * *

Q. In other words, the compressing of gas to such pressures as 500 and 550 pounds per square inch, in your opinion, is considered part of the process of gathering the gas, is that true? A. Yes, it is a part of the process of gathering in that it is conditioning gas for disposal.

Q. By disposal you mean the sale in this instance to an interstate pipe line? A. To any purpose where compression is necessary. The purpose in gathering is to collect the gas, condition it and move it to points of disposal. That is the operation.

* * *

[5082]

Q. Well, does Phillips operate that particular plant or it is some other company? A. Phillips mechanically operates it, but the ownership is diverse.

Q. But Phillips is the seller of the gas to Cities Service Gas Company, is that not true? A. On its portion of ownership of the gas.

Q. Isn't the contract with the Cities Service Gas Company made by Phillips as the seller, the contract that is in evidence in this case? A. The original contract for the sale of gas from the plants in that field were made by the partners in the plants, but the sale of gas currently is by the owners of the gas.

[5083]

Q. You didn't answer my question, Mr. Bunn. A. That is the best I can answer.

Q. Do you mean to say the contract here in evidence relative to the sale of gas to Cities Service Gas Company is not made by Phillips as the seller? A. I don't know what is in evidence in total here as exhibits, but I know that the gas is sold to Cities Service by the owners of it in the West Edmond field.

* * *

[5085]

BY MR. McALLISTER:

* * *

[5097]

Q. What are the lines that connect the casing through the separator and what-not, what are they? A. I would call them producing facilities.

Q. What are included in those producing facilities that you are talking about? A. Oh, producing facilities would consist of the well itself and all equipment in connection with it in the well, in the hole, the bore, the equipment on

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top of that well, which might control it, which might include a derrick over it, it would include the lead line from the well to a separator if a separator were installed, it would include the separator itself, and the control equipment on it, and tankage even in connection with it, that would all be and is considered in the industry generally as producing equipment. It might include a treating plant.

Q. Do you have any writing on that or is that just your word of mouth concept, an expression of your concept of what it is?

MR. SPARKS: May we have the question read?

PRESIDING EXAMINER: Read the question.

(Question read by the reporter.)

BY MR. McALLISTER:

Q. I mean you stuck it in there as a gratuitous statement, and I want a definition of it now. A. I didn't stick it in as a gratuitous statement.

[5098]

Q. You said "It is my concept and understood in the industry", and I'm asking you if you have any writing on that which shows that it is the concept in the industry? A. Nobody ever wrote me a letter to—

Q. (Interrupting). Nor, I mean anything in writing or printed that shows that description of facilities. A. I'm sure I have something in that connection if I reviewed it and went through all I have. It might show that in printing or something of the kind, but I know that is what our production department considers the facilities.

Q. When you limit it to yourself and your company

I haven't any objection, but when you include it in the industry and if you insist on that, then I'd like to have you produce something in writing as some authenticity representing the industry, not currently but in the past when this issue was not present? A. You know what an industry may consider and classify lots of times without having it in writing.

* * *

[5115]

Q. Well, then, we can get it down to this process, whatever you are required to do to process the gas under these gas purchase contracts or whatever you elect to do in a gasoline plant along with that processing, and as a part of the total processing, that is all a part of gathering and within your concept? A. In general I think that is correct, if it is done for disposal and prior to it, it is part of gathering.

Q. And then on beyond that the gas passes out of the gasoline plant and is transported for some distance—nothing to be done in that thousand feet or whatever it is outside the plant, but that is still part of the gathering up to the point of actually delivering it to the purchasing company and where we are concerned here it is El Paso, Panhandle, Michigan-Wisconsin, Independent Natural Gas Company or Cities Service? A. Yes, if it is in or near the area of production.

Q. In or near, now we have a new term. How far is it in or near? A. I don't know. That in is clear, within the confines of the area of production. The limits of it, near is a term that is difficult depending on circumstances.

Q. You say area of production?

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[5116]

A. Yes.

Q. That might be 25 miles away? A. No, I wouldn't say so. It is within the limits of the production from which the gas comes.

* * *

[5119]

Q. Well, I don't know, but they have some facilities there for compression and so on, and those are gathering lines of Panhandle also carrying it into the, gathering it into, their compressor station and other facilities adjacent there, are they? A. Do you mean at Hansford plant?

Q. Yes. A. Of course, Panhandle Eastern doesn't have any equipment that I recall right at the Hansford plant except the pipe line—

Q. (Interrupting) Well, let's call it a pipe line, it goes into a pipe line, is that a gathering line for Panhandle to take the gas into their next plant? A. No, it isn't a gathering line in the sense of my

[5120]

concept of gathering, as understood in this industry.

Q. It isn't? A. No, it doesn't gather gas from wells and leases.

Q. If Phillips lines were to go out there another half mile to a point of connection, this is an assumption now— A. (Interrupting) From Hansford plant?

Q. From Hansford plant, in addition to the area there they transport, you had another half mile out there that

would still be gathering no matter what the distance? A. I won't say no matter what the distance, no, but if it is a half mile, I'd say, yes, it is still gathering. You don't gather out in the middle of the lake, as you said one day, you have to gather for a purpose and that is a disposal, and gathering goes to that point or those several points of disposal.

Q. Including the vent stack up in the air forty feet? A. Yes.

Q. The sales meter there that is on that line, is that a gathering facility? A. It is if it is Phillips Petroleum Company's.

Q. It is a gathering facility if it is owned by Phillips? A. Yes, because it is a part of the facilities that are required before disposal.

Q. If the facilities are owned by the purchasing company than what are they, the gathering facilities? A. No, they would not necessarily be gathering facilities.

[5121]

They might be incidental gathering facilities depending on where the point of delivery was in that installation.

Q. If the point of delivery is beyond the meters and the meter runs? A. Then they would be incidental gathering facilities.

Q. Whose are they? A. Well, they are not Phillips Petroleum Company's. They are incidental facilities.

Q. They are incidental facilities. Then the point of sale is beyond the Phillips ownership of facilities if the meters are owned by somebody else? A. They might be. I say they might be, at the outlet of meters, for instance,

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owned by somebody else.

Q. Under those circumstances is the sale a part of the gathering? A. The sale is an incident to gathering, just like the purchase of the gas.

Q. I said it is a part of gathering? A. It is an incident to it.

Q. It is not a part of it, though? A. It is not a mechanical thing, the sale itself, it is not a facility, no.

Q. You make a sale to El Paso. Is that sale a part of the gathering according to what you are saying? A. It is an incident to gathering. It occurs at the end

[5122]

of gathering.

Q. Gathering has been completed before the sale? A. It is an incident to that gathering.

Q. Just answer that question? A. No, sir, it is an incident to gathering. The one can't start beyond the point if the two begin at the point.

Q. They are simultaneous, then? A. They are simultaneous.

Q. The end of the gathering, the sale and the beginning of transportation, all three are simultaneous at one time? A. No, not necessarily.

Q. What is the gap between the end of gathering and the beginning of transportation? A. The end of gathering—

Q. (Interrupting) The end of gathering and the beginning of transportation, what gap is there between those two? A. The end of gathering is at the point of disposal.

• • •

[5127]

Q. So there the question of gathering is determined by the contract? A. In a considerable measure, yes.

Q. Well, entirely so far as the return and extraction is concerned? A. So far as that part of it is concerned, yes, sir.

• • •

[5133]

Q. We went through that yesterday. If the delivery point is down there where the meter is it would be gathering that far? A. Well, I don't know whether it would or not. The actual point in the reality of disposal by the gatherer insofar as he has custody over it would be at the point where his facility ends and the other fellow's begins.

[5134]

Q. Well, let me get at this thing, change of ownership has everything to do with it, then, is that right? A. As far as the functions of the gatherer himself is concerned.

Q. It does? A. Yes, what he is performing, what he is doing is a reality.

Q. If you ask a gatherer, as you have used the term here, brought the gas up to the inlet, up to the fence line, of the Sherman plant and there turned it over to Michigan-Wisconsin and delivered it to them at that point, then, your gathering would be completed at the fence line, and I mean just exactly as your facilities are laid out there today as the various lines, you own them up to the various points at the fence line—

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A. (Interrupting.) Our gathering would end at the point we dispose of the gas to Michigan-Wisconsin, yes.

Q. Right at the fence line? A. Well, wherever we actually dispose of it.

Q. What I was making clear was that the lines as they are now laid out, where they cross the fence line coming into the plant, and you disposed of it on those various lines as it came into the plant, that would be the end of your gathering? A. I'm not sure I understand. You say coming into the

[5135]

plant?

Q. I mean the lines from the field come up to the fence line as they come in the plant? A. Converge in the plant?

Q. Yes. A. Would you restate your question, now?

Q. And under those circumstances you were selling and delivering the gas to Michigan-Wisconsin at the fence line, no matter what line it was coming in on. A. If we were selling it at that point?

Q. Yes, yes. A. If we were actually delivering it to them—

Q. (Interrupting) I mean actually delivering it to them, then. A. If we were actually delivering it and disposing of it to them.

Q. At those points. A. At each of those points.

MR. SPARKS: And the facilities beyond that point were there?

MR. McALLISTER: Yes, all the facilities beyond those points belonging to Michigan-Wisconsin.

A. Each of those points, up to those points would be gathering.

MR. McALLISTER: And beyond that would be something

[5136]

else— A. (Interrupting.) It would be theirs, not our gathering—

Q. And when you say our, you mean Phillips Petroleum? A. That is right.

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[5211]

Q. I show you the official copies of Exhibits 51, 50, 49 and 48, and will you examine those exhibits, Mr. Bunn, and then I have a question that I would like to put to you when you have had an opportunity to look at the exhibits. A. Yes, I have reviewed them.

Q. The question is this, do you base your answer that the lines shown on those exhibits are gathering lines within the meaning of the term "gathering lines" as used in the industry, the question is, do you have any treatise or documentary support for that statement as to the practice in the industry wherein the question of the proper designation of those lines is under discussion and not merely the incidental use of a descriptive term as referring to the lines? A. I'm sure that given time enough I could find—

Q. (Interrupting.) You say you could find them. I asked you if in making that answer you based it upon such written evidence of classification within the industry. A. I had in mind that in communication among units

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[5212]

of the industry words are used, terms are used, such that there would be no doubt but what it is this type of line as expressed in these exhibits that would be called gathering lines by others in the industry. I also had in mind many contacts with people in the industry from day to day over the properties, looking at our lines with them and looking at their lines and referring to them regularly as such, as gathering lines, as depicted on these exhibits. It is a matter of acquiring a broad knowledge over a period of years, not from written things necessarily but let us say confirmed in part in written matter.

Q. But your answer here, as I understand what you now say, is it is based solely upon your own personal impression, gleaned, as you say, from contact with people who are members of the industry and not upon any written treatise or considered document wherein the discussion had for determination the proper naming of lines of this character? A. It has been both. It has been—

Q. (Interrupting.) Would you refer me to one of these documents that you say exists? A. I say you give me time enough and I can—

Q. (Interrupting.) I mean how much time do you want? A. I don't know. I had never thought of seeking all those things, but I know I have them in the past over a long period of time. I undoubtedly have books on it from

[5213]

which I could cite you examples in addition to correspondence with others from other concerns in this industry.

Q. Can you do that by tomorrow morning? A. What is that?

Q. Can you do that by tomorrow morning? A. No, I couldn't.

Q. It is not that readily available? A. Just because there has been no reason for accumulating any such information on that. I'd have to make research on it just as you or anyone else would. It could be done, I'm sure, in time.

Q. How much time? A. I don't know. I have done jobs of that kind on other occasions for other purposes and I know you can not estimate very well the time to present comprehensive and voluminous citations.

Q. But you haven't done that in the statements you have made here? A. No, I haven't. I didn't think it was necessary. I just know it.

Q. As a matter of fact, if others in the Phillips organization, as they have in this docket, have testified, then in your opinion they don't know what they are talking about? A. If what, did you say?

[5214]

Q. If others who are employees in the Phillips organization in testifying in this docket have otherwise classified these lines and referred to them, then they don't know what they are talking about, is that your— A. (Interrupting.) Well, I would say that anyone that might have said that, they might not have been well versed in it. I don't know. I don't remember who all might have said it. They might have been mistaken.

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Q. And they might have been talking offhand, too, and using the usual terms that they do in their day-to-day business, is that right? A. They might have used other words, they have used other terms, than gathering lines. As I said myself, there are other terms that are used for all of these lines, even these interstate pipe lines, there is not the same word or same term always used by everybody to refer to them.

Q. That is right. A. But in the case of these gathering lines, so far as I can recall in the history of the business, people in this business in all kinds of companies, in communicating with each other and dealing with each other very regularly use the terms gathering lines in referring to them as they are depicted on these exhibits.

* * *

[5268]

Redirect Examination by Mr. Sparks

Q. Mr. Bunn, will you turn to Exhibit No. 111? A. Yes, I now have Exhibit 111.

Q. In the lower right-hand corner of that exhibit, Mr. Bunn, there is a gray arrow labeled "Texroy Booster". Do you find that? A. Yes.

Q. What is the function performed by that Texroy Booster? A. That booster collects the gas from the wells at that point, draws the gas from the wells, elevates the pressure and pushes it on its way into Pantex Natural

[5269]

Gasoline plant.

BY MR. McALLISTER:

Q. It pushes into what plant? A. Pantex gasoline plant.

Q. Where is that? I see it, never mind.

BY MR. SPARKS:

Q. And at the lower part of the map, just below the Hutchinson-Carson County line, do you find a gray arrow labeled "Carson Booster"? A. Yes, sir.

Q. What is the function performed by the Carson Booster? A. That is similar to the function performed by Texroy Booster.

Q. Are those two boosters gathering facilities? A. Yes, sir.

Q. They are not pipe lines, though, are they? A. No, not altogether. There are some pipes around the plants, some lines, but they are more than that, they are gathering facilities.

Q. You have previously testified, I believe, that the red lines on this Exhibit 111, which is an exhibit of the Borger-Moore County area, are raw gas gathering lines, have you not? A. Yes.

[5270]

Q. Are there in that gathering system other mechanical devices that are not pipe lines as such? A. In those gathering facilities?

Q. Yes. A. Yes.

Q. Can you name some of them?

MR. McALLISTER: We are talking about the Borger plant, are we?

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MR. SPARKS: No, I'm talking about the raw gas gathering lines shown in red on Exhibit 111.

MR. McALLISTER: Might I get one point clear? There is red on here of different shades. Which ones are you talking about? Are those lines supposed to be different or is it just one fellow has been using poor ink of some kind?

BY MR. SPARKS:

Q. Go ahead and answer. A. Let us say that we are referring to what I might call the bright red or the carmine lines. There are some other colored lines there which are not what I would call bright red, they are more of a tan, they may be a shade of red, but the bright red lines are the lines to which I'm referring.

Q. Mr. Bunn, the line down at the bottom of the map which is labeled "From Plains Water Station", that is a water line, is it not?

[5271]

A. Yes, and that is one of the lines I'd refer to as tan.

BY MR. McALLISTER:

Q. That is a gas line, though? A. That is a water line, and I'm not referring to that as a red line. That is what I mean.

Q. I mean there is nothing on here that says it is a water line. It is the first time it has been described as such? A. It is a water line and the legend indicates that the color shown on there is a water line.

BY MR. SPARKS:

Q. It doesn't appear to be red to you, does it? A. No, I would call it tan.

MR. McALLISTER: It appears to be red to me. I was wondering why colors so similar were selected unless it was to confuse.

BY MR. SPARKS:

Q. Did you select the colors so they would be confusing there, Mr. Bunn? A. No, as a matter of fact I didn't select the colors, and in daylight these contracts are much better than they are under this light.

MR. McALLISTER: We just hope that the Commission can look at them in daylight, then.

[5272]

BY MR. SPARKS:

Q. Mr. Bunn, would you answer the question I asked you before I was interrupted? A. I believe you were asking me some of the facilities there might be in the gathering facilities that are not pipes or pipe lines. Well, let's see, there are metering, for instance, which are part of the gathering facilities. There are many meters. There are meter instruments and such appurtenances in the meter houses. There are drips all along these lines at different points to remove condensed liquids from place to place. In connection with the operation of the lines there are houses of the employees that are necessary to the gathering and we regard as part of those facilities. They might be considered incidental to gathering, of course, because they take no direct part in it. There are offices at several points around the area for the people who care for the gathering facilities. There are compressors such as I have indicated in Carson and Texroy Boosters, and, of course, other ap-

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purtenant facilities in those plants such as cooling towers and buildings to house the engines and compressors, water tanks, instruments for measuring pressure and temperature and such things of that. There are a number of items that would not be called pipe lines.

Q. There are water lines to those compressors, are there not? A. Yes, there are water lines to serve those engines and

[5273]

compressors. They are part of those facilities.

Q. Are all of those facilities gathering facilities even though they aren't pipe lines? A. Yes, we regard them all as gathering facilities because they take part in the operation of gathering.

MR. McALLISTER: Might I ask a question there; He left out valves and I was wondering if there was any reason.

BY MR. SPARKS:

Q. I'll ask him. Was there any reason for leaving out valves? A. No, I didn't consciously omit valves. There are many kinds of fittings involved there, there are relators and valves all over the system at different points. Valves, at least, are sort of part and parcel of pipe lines and I didn't think to mention them, but there are valves all over and, of course, valves in these booster plants, regulators of one kind and another.

Q. Gathering facilities are not limited to pipe lines or pipe, are they, Mr. Bunn? A. They certainly are not.

Q. If all you had was pipe and nothing else, why, you

just probably couldn't operate, at least you'd be definitely handicapped in the operation of the collection of gas, would you not? A. Well, I can hardly imagine a gathering operation so simple that there was nothing but pipe in it. It certainly would

[5274]

have some valves or some other fittings.

Q. Now I'd like for you to turn to Exhibit No. 104. Exhibit 104 is a map of the Pampa area, including Gray County and parts of Wheeler, Carson and Hutchinson County, is that correct? A. Yes, parts of those counties.

Q. I note on this exhibit in a portion of the lower left-hand corner an arrow that is labeled "Annie Booster". Do you see that? A. Yes.

Q. What is the function of that field booster? A. That is a part of the gathering facilities for gathering gas.

Q. What does it do? A. It draws gas from two leases in the area nearby and elevates the pressure into another line nearby which is collecting gas from other wells in the vicinity. In this case the Annie Booster is picking up casing-head gas at relatively low pressure and elevating its pressure to oppose the pressure in the line into which it is delivered which is serving principally otherwise wells which produce natural gas only.

Q. And that line into which the Annie Booster delivers this casing-head gas furnishes a portion of the gas processed at Pampa, Bowers and Gray plant, does it not? A. You say the line into which the Annie discharges?

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[5275]

Q. Yes. A. A portion of Pampa—beg pardon?

Q. Pampa, Bowers and Gray plant. A. Yes, that is right, that gas collected in that area through the Annie Booster and its compressors and from the dry gas wells in the area otherwise at natural well pressure is delivered in part to Pampa, Bowers and Gray plants.

[5276]

Q. Now, to the east in Wheeler County, I notice a gray arrow on the map designated "Wheeler Booster". A. Yes, sir.

Q. What is the function of that booster? A. That is a part of the gathering facilities supplying gas to Gray plant and Lefors plant. Its purpose is to draw gas in from the various wells and leases on the downstream side and elevating that pressure, the pressure of that gas, so that it is sufficient for the pipe line, the gathering line from that point on in, to Gray plant and by Lefors to transport the gas as a part of the collection there that is available.

Q. And part of the gas that is boosted at the Wheeler Booster is taken over through a tie-over and processed at the Lefors plant? A. Yes, sir, a part of that gas is taken off there and other gas from local areas about Lefors is also processed in Lefors.

Q. And the gas that is compressed at the Wheeler Booster is partly casing-head gas, is it not? A. That is correct.

Q. And the gas that is compressed in the Wheeler Booster that is not taken off at Lefors plant goes on down

the pipe line in a westerly direction and at a point three or four miles west of the Lefors plant I observe

[5277]

a gray arrow marked "Red Booster". A. Yes.

Q. What is the function of that booster? A. That booster has the same function as Wheeler Booster for gas in and around the Red Booster, except that the gas which is discharged by Red Booster into the adjacent gathering line into Gray Plant all goes to Gray plant and none of it to Lefors plant.

Q. Is that Red Booster a gathering facility? A. Yes, sir.

Q. But it is not pipe line? A. Well, no, the booster in its entirety certainly is not a pipe line.

Q. I believe you have heretofore testified that the red lines on Exhibit 104 were raw gas gathering lines, did you not? A. Yes, I have. I was just looking to see if there was any other confusion of shades here to contend with, but it seems to me they are clear here, that they are still bright red lines and I don't believe there is much confusion with any other shade. They are gathering lines.

[5278]

Q. And do they have there in that system of gathering lines the other mechanical installations and devices which you said were utilized in connection with the raw gas gathering system shown on Exhibit 111? A. Yes. I believe in this system, yes, all of the things I named otherwise are somewhere found in these facilities, among these facilities.

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Q. And are such facilities gathering facilities although they are not gathering lines? A. Yes, they are all part of the gathering facilities.

MR. McALLISTER: Mr. Examiner, of course, the witness is testifying to conclusions, and I want it recognized on the record that when someone tries to find out a little later on, he may also be asked to express conclusions.

BY MR. SPARKS:

Q. As you have stated in your testimony here this morning that certain facilities were gathering facilities or gathering lines, state what was the basis of your testimony in that regard. A. Well, that is what we regard them as and what we call them in our operations. We have for years more often than otherwise referred to those facilities in the aggregate as part of the gathering facilities. We also know that they are so considered and regarded by, I'd say, the industry generally because we know from our contacts and our operations jointly with others that they regard the facilities in the same way as we, and so classify

[5279]

them.

Q. That is the basis of your testimony? A. That is right.

Q. Very well. Now turn to Exhibit 91. This exhibit is a map of the Goldsmith area in Ector and adjoining counties in West Texas, is it not? A. Yes. It is a map showing portions of Andrews, Crane, Ector, Winkler and other counties, but principally the area surrounding what is termed the Goldsmith area.

Q. And also the area surrounding the Judkins plant? A. Yes, and the other features shown on it.

Q. There is on the exhibit an orange arrow which is labeled "Harper Booster". Do you find that? A. Yes, sir.

Q. Assuming that that Harper Booster is performing the function of compressing the gas collected through the red lines shown on the map to lead into the booster, and moving it through the red line leading to the Judkins plant, is that a gathering facility, the Harper Booster—

MR. McALLISTER (interrupting): I object, Mr. Examiner.

BY MR. SPARKS:

Q. (Continuing)—within your concept of gathering facilities as you have defined it here and as it is understood in the industry?

MR. McALLISTER: I object, Mr. Examiner. In the first place,

[5280]

he asked the witness to presume something that he is presumed to know in this record. In the second place I object to him attempting to speak for the industry. He is not qualified in anyway to speak for the industry. He can speak for himself. He has not shown himself by anything that has been demonstrated here that there is any understanding in the industry that he is the spokesman for the industry.

MR. SPARKS: Mr. McAllister knows that is not a valid objection.

MR. McALLISTER: I do know it is a valid proposition.

MR. SPARKS: No one is attempting to have the wit-

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ness speak as a spokesman for the industry, of course. It is not the basis of his testimony, and I think it is perfectly obvious that a man who has had the experience in the business and in an industry is qualified to speak concerning the understanding of the industry with reference to the meaning and use of terminology. There isn't any question about that whatever, and that is the sense in which the questions in that regard have been asked and answered.

PRESIDING EXAMINER: I don't know about the understanding, but it seems to me he would be qualified to testify as to the use of terminology within the industry.

MR. SPARKS: That is the basis upon which he has been testifying.

MR. McALLISTER: There are individuals in the industry

[5281]

that have an entirely erroneous concept.

PRESIDING EXAMINER: There are individuals in the industry, you say?

MR. McALLISTER: Yes.

PRESIDING EXAMINER: I think that is probably true.

MR. McALLISTFR: It is just like some people are known by certain names, but that doesn't mean that is what they are.

PRESIDING EXAMINER: I think that goes to the weight of the evidence rather than the qualifications of the witness or the competence of the evidence.

MR. SPARKS: I'll withdraw the question. I want to

ask Mr. Bunn if he knows the operation and functions performed by the Harper Booster.

THE WITNESS: I was uncertain a day or so ago. I had forgotten which way we switched that plant, as I believe I testified. It is operating as a booster station moving gas into Judkins plant.

[5282]

BY MR. SPARKS:

Q. No processing is done at the Harper Booster? A. No, sir.

Q. Within your concept of the gathering function and your understanding of that concept as it is known and understood in the industry, is the Harper Booster a gathering facility? A. It is.

MR. McALLISTER: I object, Mr. Examiner. Of course, the witness has answered the question when he heard me voicing my objection.

PRESIDING EXAMINER: Strike out the answer.

Let's divide that into two questions.

Read the question, please.

(Question read by the reporter.)

MR. SPARKS: All right.

BY MR. SPARKS:

Q. Within the concept of gathering as it is known and understood in the industry—

MR. McALLISTER: I object, Mr. Examiner. It is an oft repeated—

MR. SPARKS: (interrupting): Let me finish the question.

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MR. McALLISTER: I mean it is five minutes since you stopped talking.

PRESIDING EXAMINER: All right, Mr. Sparks, go ahead

[5283]

and finish your question.

MR. McALLISTER: I want the record to show, Mr. Examiner, at this point, that he had stopped and had paused and I voiced my objection and he gets redheaded over it.

MR. SPARKS: The record shows I obviously hadn't finished the question. All he was trying to do was interrupt.

MR. McALLISTER: I don't pursue your tactics.

PRESIDING EXAMINER: All right, go ahead.

Do you wish the question read up to this point?

MR. SPARKS: No, sir, I can restate the question.

BY MR. SPARKS:

Q. Mr. Bunn, as you understand the concept of the function of gathering as it is known and understood in the industry is the Wheeler Booster a gathering facility?

MR. McALLISTER: I object, Mr. Examiner.

PRESIDING EXAMINER: The objection is overruled.

MR. McALLISTER: May I have an understanding if this witness is going to speak for the industry, I don't want to have to voice an objection after every question. Now, that is all he is asking him is it known in the industry, is it known in the industry, without describing the function or giving any reason for it. He can speak for himself, he can speak for Phillips, but he is not shown here in any manner, shape or form to have an

understanding of the usage that it would have a uniform meaning. There is none of those showings here. I just want that general objection to the record and I don't care how far the witness goes, but I don't want to have to be running a race each time with the witness and counsel to try and determine when the question is completed and when the witness is going to begin to answer the question.

PRESIDING EXAMINER: The objection is overruled.

Answer the question.

THE WITNESS: Now I'd like to have the question read.

PRESIDING EXAMINER: Read the question.

(Question read by the reporter.)

THE WITNESS: Yes, it is. In accordance with my associations and contracts with many, many operators in the industry, partly in joint operations, partnership operations with them, in connection with the buying and selling of facilities and lines, and in considering such matters whether or not we buy or sell. I don't say that as a matter of concept of the industry from the standpoint of representing the industry and speaking for them as their official agent, nor that I have polled every single operator in the industry as to just what he thinks or does, but from many years of such associations as I have described I know what they normally consider and call such facilities as the Harper Booster.

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* * *

THE WITNESS: In connection with the Judkins red line system including the Harper Booster which is a part of that system there are involved in the gathering facilities compressors, cooling towers, meters, water tanks, valves, regulators, pressure gauging instruments, temperature gauging instruments, houses and other buildings used in connection with it, all of which are regarded as a part of the gathering facilities.

BY MR. SPARKS:

Q. And necessary to carry on the operation of production and gathering? A. Yes.

Q. Leading out of the Goldsmith plant, to confine the question, there are also green lines through which residue gas is returned to some of the leases supplying gas which goes to the plant, is that correct? A. Supplying gas what?

Q. To some of the leases which supply gas that goes to the plant? A. Yes, they are delivering the green line, the green lines are for the purpose of delivering, and they do deliver, gas for lease operations and developments on some of the leases which

[5289]

supply gas to the plant.

Q. You have stated that those green lines or residue return lines are gathering lines within your concept of the function of gathering, did you not? A. Yes. They are encompassed in the entire operation of gathering.

Q. Are they ordinarily referred to as gathering lines? A. No, they are not. They are ordinarily referred to as residue lines or, taken together with the red lines, the red and green lines are very often referred to in the aggregate as field lines.

Q. Are they a part of the gathering facilities? A. They are a part of the gathering facilities in the performance of the entire operation of gathering.

Q. I wish you'd turn now to Exhibit 45-D. Do you have that? A. Yes, I have that.

MR. McALLISTER: Did you say "B" or "D"?

MR. SPARKS: "D".

MR. McALLISTER: The Dumas plant?

MR. SPARKS: That is right.

THE WITNESS: Yes, that is what I understood.

MR. McALLISTER: O. K.

BY MR. SPARKS:

Q. I'd like you also to turn to the aerial photograph

[5290]

of Dumas plant, which is Exhibit 113. A. Yes, I have 113.

Q. Looking first at Exhibit 45-D, the flow diagram of the Dumas plant, after the raw gas enters the plant, the plant yard, from the east it passes through three inlet scrubbers as shown on the diagram, does it not? A. That is right.

Q. Are those scrubbers pipe lines? A. No, they are not normally called pipe lines. They may be a pipe line installation but they are themselves not called pipe lines.

Q. Are they gathering facilities? A. They are. They

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may be—yes, they are gathering facilities in the total operation of gathering.

Q. And then the gas passes through some meters and goes through a gas treater where the hydrogen sulphide content of the gas is diminished, is that right? A. That is right.

Q. Is that gas treater a pipe line? A. No, it wouldn't be so classified ordinarily.

Q. Does it have pipe in it? A. Yes.

Q. Is it a gathering facility? A. It is a part of the gathering facilities, yes. It conditions the gas for at least a part of its disposal.

[5291]

Q. Then the gas together with some vapors passes through six plant absorbers as shown on the diagram? A. Yes, sir.

Q. Those absorbers are not pipe lines, are they? A. No, they are not regarded in common conversations as pipe lines.

Q. Are they gathering facilities? A. They are.

Q. There are other mechanical installations shown on the flow sheet, flash tanks, H. S. high stage, accumulator, primary vent tank, make tank, secondary vent tank, and then there is a reference to a fractionator. None of those facilities are pipe lines, are they? A. The vessels so labeled, no, are not pipe lines. They may be installed in pipe system but are of themselves not pipe lines.

Q. They are connected with a pipe line, are they not? A. Oh, yes.

Q. Are they part of the gathering facilities? A. They are.

Q. And the flow diagram also shows a boiler house, a generator building and a compressor building. While those buildings have piping in them, they are not pipe lines as such, are they? A. No, they are not referred to as pipe lines.

[5296]

* * *

THE WITNESS: Those lines we would commonly call water lines are not gas gathering lines, no. They don't gather gas directly, but they are a part of the gathering facilities.

BY MR. SPARKS:

Q. Are there also steam lines at the plant? A. Yes, sir, there are steam lines.

Q. Is what you have said with regard to water lines also true as to steam lines? A. Yes, sir. I might say that there are some lines that carry both steam and gas and there are some lines that carry both water and gas, but those we would call water lines would be lines that would carry water only and would not be in themselves gas gathering lines, but would be a part of the gathering facilities.

BY MR. McALLISTER:

[5297]

Q. Drinking water, for instance? A. Any kind of water they might carry, where their function is water carrying primarily.

BY MR. SPARKS:

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Q. The gathering operation requires a lot more than pipe lines to carry it on, does it not? A. Yes, sir.

Q. Now, Mr. Bunn, I wish you'd turn to Exhibit 45-A. A. I have it.

Q. There are shown on the flow sheet, Exhibit 45-A, both with regard to the Sherman and the Hansford plant numerous vessels and mechanical devices which are not pipe lines, isn't that correct? A. Yes, sir.

Q. But they are part of the gathering facilities? A. That is correct.

Q. That would include the camp houses of the employees who work at the plant, would it not? A. They are not shown on the diagram.

Q. They are not shown on the diagram— A. (Interrupting.) The houses, however, which are nearby and for the occupancy of the workmen who carry on the operation of gathering, those are—we classify those as a part of our gathering facilities.

[5298]

Q. And those houses are shown on the photograph, Exhibit 117-B, are they not? A. Yes. They may be seen in the photograph, Exhibit 117.

Q. 117 and 117-B also? A. Yes, 117 and 117-B.

Q. Those three photographs, Exhibit 117, 117-A and 117-B clearly discloses that there are numerous facilities and mechanical devices, vessels, at the Sherman plant and Hansford Plant in addition to piping and pipe lines, is there not? A. You say in addition to piping or pipe lines?

Q. Yes. A. Yes, there are many items that may be

readily discernible at the Sherman and Hansford plants from the photographs that would not be called pipe lines.

Q. And all of those facilities are necessary to condition the gas for disposals within your concept of gathering, is that right? A. All of the gas facilities, you say?

Q. Yes. A. In the plant?

Q. Yes. A. Yes, those facilities are for conditioning the gas for disposal or incorporated in the disposal itself

[5299]

in some cases.

Q. And many of the facilities which are necessary to condition the gas for disposal and to make the disposition do not appear on the diagram which is the flow sheet, Exhibit 45-A? A. Well, there are many that do not appear that could not be discerned readily from the photographs, yes.

Q. Very well, now, Mr. Bunn, will you turn to Exhibit 45-B. This is the diagram of the gas flow and some of the facilities of the Sneed plant, is it not? A. That is right.

Q. I believe that gas which Phillips sells to Panhandle Eastern, as you have testified, comes into the plant through a line at the east side of the plant which is marked "24-inch field gas to plant". A. That is right.

Q. It goes through some scrubbers— A. (Interrupting.) That line carries a part of the gas sold to Panhandle Eastern. I mean part of the gas that the line carries is sold to Panhandle Eastern.

Q. And it carries all of the gas that is sold to Panhandle Eastern? A. Yes.

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MR. McALLISTER: What was that last question? It carries all the gas?

[5300]

PRESIDING EXAMINER: Read the question.

(Question read by the reporter.)

MR. SPARKS: I think it may not be clear on the record and I think it ought to be made clear.

BY MR. SPARKS:

Q. Part of the gas that comes into the plant is taken off after the gas goes through the gas treater and goes through a line marked "6-inch gas to re-absorber" and the gas that goes through that 6-inch line, none of it is sold to Panhandle Eastern, is that right? A. No, nor is that part of the raw gas removed in the gas treater sold to them.

Q. After the main body of the gas comes through the gas treater it moves through a 20-inch line to a point at the division fence between the Phillips and Panhandle Eastern property through a line which is marked "20-inch treated gas to Panhandle Eastern"? A. That is right.

Q. And the delivery of the gas is made at or very near that fence line to Panhandle Eastern? A. Yes. The gas is turned over to Panhandle Eastern at that property line.

* * *

[5311]

Q. Mr. Bunn, even though the line labeled "24-inch raw gas from Panhandle Eastern" and the absorbers and the lines carrying the plant fractionator overhead and vaporized

[5312]

liquids and the green line labeled "24-inch residue to Panhandle Eastern" were not gathering lines, are they transmission lines and transmission facilities?

* * *

[5313]

Q. Are the lines to which I referred in my previous question and the facilities to which I referred transmission lines and facilities? A. No, I don't think so. They are, as I have said earlier, I would say incidental to Panhandle Eastern's gathering of gas in that they serve in helping to condition the gas before it passes on. In any case they are merely processing lines for the treatment of the Panhandle Eastern Gas by Phillips Petroleum Company.

[5314]

Q. Insofar as they carry gas delivered by Phillips to Panhandle Eastern through the line marked "20-inch treated gas to Panhandle Eastern" are they also incidental to Phillips gathering? A. Yes.

MR. SPARKS: I am through with this exhibit if you wish to ask any questions at this time, Mr. McAllister, you can go right ahead.

MR. McALLISTER: No, I have a lot of other questions with respect to other exhibits, and I'd prefer to take up the cross-examination in sequence. Are you about through, though?

BY MR. SPARKS:

Q. Very well, will you turn now to Exhibit 45-E-1.

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That exhibit reflects a diagram of the gas flow at the Eunice plant? A. Yes.

Q. It also shows a number of facilities, buildings, vessels, in addition to pipe lines, does it not? A. Yes. It indicates on its face a number of items such as you described.

Q. Are those other facilities shown on the flow sheet a part of the gathering facilities utilized by Phillips Petroleum Company in the collection, conditioning and disposal of the gas at that plant? A. Yes.

Q. And as such are they gathering facilities? A. They are part of the gathering facilities at this plant and in this system.

[5315]

Q. Now, I believe— A. (Interrupting) I should qualify that with reference to the exhibit as a whole to the extent to say that there is one line on here which is not a part of the gathering facilities in that it is for the purchase of gas from another concern for fuel.

Q. Is that the line which is labeled "treated gas from Witco"? A. Yes.

Q. Are there other facilities and mechanical devices utilized in connection with the operations at the Eunice plant which are not shown on the flow diagram which is Exhibit 45-E-1, but which are a part of the facilities used in connection with the collection, conditioning and disposition of gas at that plant? A. Yes. They are a part of the system which effects the complete operation of gathering gas.

Q. Are the vent lines and the flares a part of such facilities? A. Yes. I believe I indicated so before.

MR. McALLISTER: Are you looking at a photograph now?

THE WITNESS: I'm looking at the Exhibit 45-E-1, which does not show all the flare lines but does indicate a line to the flare in one instance. However, the question had to do with other equipment, not all of which is shown.

[5316]

BY MR. SPARKS:

Q. Do those facilities include camp houses utilized by employees that operate and maintain the gathering lines and other gathering facilities? A. Yes, sir.

Q. Very well. Turn to Exhibit 45-F-1. That exhibit is a flow sheet of the flow of gas at the Fullerton plant, is it not? A. That is right.

Q. And does the flow sheet show on its face vessels, buildings, compressors, furnaces and other mechanical devices which are not pipe lines but which are necessary facilities utilized in conjunction with the gathering of gas? A. Yes. The devices or equipment, some of which you have enumerated, are not shown as such on here, but are indicated, as for instance the block for compressors and such. A. And in addition to those which are indicated on the diagram are there others in the plant which although not pipe lines are necessary facilities utilized in the collection, conditioning and disposal of the gas?

MR. McALLISTER: I object, Mr. Examiner. There are other things in the plant, why, I suppose, there is nuts and bolts and screws and baling wire. I don't know what kind of a plant it is, but if there is something that is impor-

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tant to this let's have it, let's name it, instead of just trying to lump all of the other

[5317]

facilities that may be in there. I suppose there is nails and maybe they have some rock and some earth piled in some corner to hold down a pipe and I suppose that is what he is referring to.

PRESIDING EXAMINER: I suppose that will be developed.

MR. McALLISTER: I mean he just said there are other things. Read the question. What in the world are we to understand by the question?

PRESIDING EXAMINER: The objection is overruled.

Answer the question.

THE WITNESS: There are a number of other items of equipment that are used in performing the function of gathering which are not shown in the diagram. There are also plant houses for occupancy of employees, which are not shown on the diagram, but are adjacent to the plant which would be regarded also as a part of the combined gathering facilities.

BY MR. SPARKS:

Q. Are there not also pipes in the plant which are not gas gathering lines?

MR. McALLISTER: I object, Mr. Examiner. It is another one of those questions that doesn't mean a single thing.

PRESIDING EXAMINER: The objection is overruled.

THE WITNESS: Yes, there are a number of lines that

would not be called gas gathering lines ordinarily. They are lines that carry steam and so forth that would not be called gas gathering

[5318]

lines ordinarily at all. They are, however, a part of the gathering facilities, in that they perform as an adjunct to the combined operation of gathering.

Q. Now turn to Exhibit 45-G-1. I believe I want you to direct your attention first to a raw gas line coming from El Paso Natural Gas Company as shown on the diagram through two meters labeled "24-inch 600-pound wet gas from El Paso" and a green line going to the right on the sketch and then turning at right angles through a block labeled "two meters" and labeled "24-inch 600-pound residue gas to El Paso". A. Yes, I see those lines.

Q. I believe you have stated in your testimony that those lines were incidental to Phillips gathering, and I believe at another point in your testimony you stated that Phillips gathering had been completed at the time of delivery of the gas to El Paso through the line which is labeled "24-inch 50-pound wet gas to El Paso"? A. Yes, I recall there is some confusion in what I had said on the two occasions in reading the record. In one instance, I believe in connection with the questions asked, when I may have indicated that is the end of gathering where the red line labeled "50-pound wet gas line to El Paso" reaches the point of delivery, was the end of gathering. I made a erroneous statement and not at all consistent with the statement I had made otherwise or that I think the facts bear out as to the operations, because

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those lines as I see them, the two you have referred to, the 600-pound wet gas line from El Paso, a red line, and the 600-pound residue gas to El Paso, a green line on 45-G-1, are incident to the conditioning of the gas which El Paso buys from Phillips and eventually takes down its pipe lines. The gasoline is not extracted from the gas originally delivered to El Paso through the red line labeled "50-pound wet gas line to El Paso" and is therefore not conditioned for the disposal to El Paso. The two lines, 24-inch 600-pound residue gas to El Paso and the 24-inch line labeled "600-pound wet gas from El Paso" are both incident to the gathering of the gas by Phillips in that they are necessary to convey the gas for conditioning from and back to El Paso.

Q. Are those two 600-pound lines, the one marked wet gas and the other marked residue gas, and the 600-pound absorber transportation lines or transportation facilities?

MR. McALLISTER: I object, Mr. Examiner. It calls for a conclusion of the witness and the witness has not defined the term that counsel seeks him to use and it has not been defined by counsel in the question.

PRESIDING EXAMINER: The objection is overruled.

MR. McALLISTER: Note an exception?

PRESIDING EXAMINER: Note an exception.

THE WITNESS: Certainly I wouldn't call them transmission lines in that they serve the purpose only of moving the gas in a

[5320]

loop through Phillips facility and serve no direct purpose

in advancing it through El Paso's facilities, through El Paso's pipe line facilities.

BY MR. SPARKS:

Q. There is shown on this sketch, 45-G-1. A. 45 which?

Q. G-1, for the Goldsmith plant, in addition to the pipe, piping or pipe line, whichever you want to call it, a number of vessels or diagrammatic suggestions of facilities such as the dehydrator and plant gas treater and compressor building and compressors, inlet scrubbers, high stage injection compressors. Are all of those facilities facilities used in conjunction with the collection, conditioning and disposition of the gas by Phillips? A. Yes, all those that you named are. There are some facilities indicated on the diagram which are not a part of those facilities, such as Sid Richardson Carbon Black Company. That is not meant to be a plant or if it is it isn't a part of Phillips' facilities.

Q. That is true also of the block that is labeled "El Paso Natural Gas Company"? A. That is right.

Q. Are there other facilities and equipment in this plant which is not shown on the flow sheet or exhibit? A. Yes, there is considerable equipment in the plant that is not indicated or labeled or shown, which is used in connection

[5321]

with the collecting, conditioning and disposing of the gas which comes to the plant.

Q. And are there other lines, pipe lines or piping? A. Yes, there are many other pipes and lines, some short sections of pipe line through the plant, some carrying water, some carrying steam and other substances, all of which are

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included as a part of the facilities for the over-all functioning of gathering the gas.

Q. Very well. Now turn to Exhibit 45-H-1. That exhibit indicates diagrammatically the flow of gas in the Crane plant, does it not? A. Yes, that is right.

Q. The exhibit also indicates diagrammatically facilities such as cooling towers, engine room, vessels, absorbers, various tanks, gas treater, and numerous meters, which are not pipe lines? A. No, none of those items as you mentioned them would be called pipes or pipe lines.

Q. Are all of those facilities shown on the diagram, such as these facilities shown on the diagram, utilized in connection with and a necessary part of the collection of the gas, conditioning of the gas and disposal? A. Yes, they are a part of the over-all gathering facilities.

Q. Does that include the green residue lines or to make that more specific does that include the green residue line

[5322]

which is markd "24-inch" and also marked "residue to El Paso"? A. Yes, that is a part of such facilities out to the point where Phillips turns the gas over to El Paso.

Q. Does it include the green line which is marked "flare"? A. Yes.

Q. Are there other facilities in that plant which are not shown on the diagram? A. There are a great many facilities not shown on the diagram used in the performance of collecting, conditioning, and disposing of the gas. There are also houses adjacent to the plant shown on the diagram for the occupancy of the employees which take care of and

operate the gathering facilities that have been mentioned and they are considered a part of over-all gathering facilities.

Q. I believe I failed to ask you about Exhibit 45-C. Will you turn to that one, please. That diagram shows certain facilities at the Gray plant, and my questions to you will be with reference to the area that is marked "Gray plant" and enclosed by— A. (Interrupting) And what?

Q. And enclosed by a fence, which is a dash-X line on the exhibit. The exhibit shows on its face intake compressor in a block and absorbers in a block. Those are facilities which are used in connection with the collection, conditioning and disposal of the gas at that plant which are not pipe lines?

[5323]

A. Yes. Those labels indicate equipment which are not themselves pipe lines. There is other equipment in the plant also than that indicated which is not, may not be called, pipe lines and some which is called piping or pipe lines in some cases, which is a part of the facilities in the over-all function of gathering in the Gray plant system.

Q. Do all the facilities in that Gray plant which belong to Phillips constitute a part of the facilities by which Phillips collects, conditions and disposes of the gas at that plant? A. They are.

* * *

[5403]

BY MR. McALLISTER:

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Q. Then I asked you another question, and I said does gathering, according to your concept, then end

[5404]

at the exact same point where the gas is turned over to Panhandle? A. The gathering itself which, in the case of this disposal, involves the sale as an incident to it, to that gathering and to that disposal, in my opinion, because the sale question is a legal concept in my opinion, does not end except on completion of the sale, which in my concept, would include not only the physical turning over of the gas but would include the billing for it and the collection of the money.

Q. Then does Phillips continue to own the gas all the way through the Panhandle line until such time in the future Phillips bills for the gas and gets payment for it? A. I don't know. I wouldn't think so, but I don't know.

Q. You don't know that? A. If they didn't pay us for it at sometime or other, I'd like to know the answer to that one.

Q. Even though it went into Milwaukee and somebody had already burned the gas up there, why, it is still Phillips gas until they get paid for it, is that right? A. There wouldn't be any gas if it is already burned up, I don't believe.

* * *

[5420]

Q. Yes, that is the answer I wanted. You talked about the houses around there. If they were to burn down tomor-

row or is it going to effect the functioning of the gasoline plant? A. It might.

Q. How? A. Well, the plant might be exposed and shut down in the fire that burned the houses.

Q. I said yesterday. The fire is out now. A. Well, the plant might still be down, too.

Q. Just getting right down to brass tacks, it is a facility that may be provided in the way of a camp or housing, but it in no way functions as a part of the processing plant, it is merely a place for some people to live? A. That is what it's for. It is a place to live and there are several alternatives in that connection of housing people

[5421]

just the same as there are several alternatives in collecting and processing.

Q. Even if they slept in a tent the plant can go on without the houses, is that right? A. If the houses are there or the tent is there, it is Phillips Petroleum Company's property and they have had to provide it under the circumstances, then it is an adjunct to the whole operation.

Q. All right, if you call it adjunct then I haven't any more questions about it. A. It is a facility and if you want to be more precise than I sometimes am or no how to be, it is an incidental one at least.

Q. As long as we make it plain what its function is we don't have to worry about it? A. That is what I thought.

Q. I suppose the plant fence is in the same category? A. Yes, I'd so classify it.

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Q. And I suppose you are still sticking to the idea that the vent pipe up in the air 40 feet or so is a gathering line? A. If it is connected, if it is not a piece of pipe as you say.

Q. I mean for the purposes of this question it is connected and when you light it there is a flame out of the top of it? A. It is now connected?

[5422]

Q. Yes. A. It is one of the facilities, yes, sir. It is a facility for disposal and a very important one.

Q. And it is a gathering line in that respect? A. It is a part of the whole gathering system as I said before.

Q. It is a gathering line, I don't want to get away from that, because you have said it about 40 times and if you are going to change it— A. (Interrupting) No, sir, I have said that and I still say it is a gatheing line in the performance of the entire function of gathering.

Q. What is the real distinction between facilities, gathering facilities, and facilities incidental to gathering? A. Well, the distinction that I make is that those facilities that are involved directly in the physical operations of the collection, the conditioning or qualifying of the gas and the disposal are gathering facilities, and other things which do not enter so directly in the first turn-over of the gas in connection with the disposal, but still perform part of the total gathering operation, would be incidental or would be supplemental in any case to the direct facilities, such as the office that I spoke about or the dwelling houses, they would be, I think more properly said to be incidental gathering facilities.

Q. If you went down to that office and sat down in one of

[5423]

the chairs in the office, then you become incidental to gathering, is that it? A. No, I don't think I would be a facility.

Q. Well, the chair is? A. Well, if it is our property and needed there, yes, it would be an incidental facility. The pencils and the paper we write on, those would be.

Q. And if you went down there and you got an automobile to ride you around and around the plant to look at it, why, the automobile is incidental to gathering? A. We certainly regard our automotive equipment that is located at these plants as incidental facilities to the operation.

Q. I didn't say that, I say incidental to gathering? A. I say to our operations which is gathering in most of the instances we have been talking about in these plants.

Q. Those automobiles are incidental to gathering or do we have to take up this word operation and fuss with that? A. I think that is a better term to use, because while they enter in some respects directly into the handling of the gas, such as the testing equipment, which is automotive equipment and the meter equipment and so forth, but even at that I think they would be termed as incidental facilities. We set them up in our plant there as a part of the cost of the thing.

* * *

[5445]

Q. I said where in relation to the delivery points from

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those nine plants does gathering end, according to your concept.

[5446]

That is all. It is a very specific question, and it is a very definite one, and I want it not in general terms but I want it in specific terms in relation to each of the nine if you can give it to me. You have said all afternoon you couldn't be specific? A. And I'm telling you now that I can't tell you because with respect to gathering, which you have asked, as regards those points, gathering in our concept involves the sale, and I don't know where the sale is. That is a legal thing that I don't know.

Q. That is the first time you have said that? A. No, I have said that all afternoon.

Q. No you haven't. That is a new one, it is the first time you said it. A. I have said sale is an incident to gathering.

Q. You have stalled all around sales, that is the first time you said that. So now the sale is a part of gathering? A. I have said quite a number of times that the sale is an incident to gathering.

Q. You have said it is something that follows it, and now you are saying it is a part of gathering? A. I didn't say it followed it, I said I didn't know what constituted it. That is the thing I wanted a legal opinion about.

Q. If you don't know what constitutes a sale, how do you

[5447]

know it is a part of gathering? A. I'm saying that has

been our concept of it, that when we build a facility we try to sell gas and as you suggested in one of the presumptions a while ago, usually one of the things we may do at the outset is to try and make a contract with someone who wants the gas and then we provide the facility to make the disposal.

* * *

[5485]

MR. McALLISTER: At this time and in aid of Mr. Sparks' argument, Mr. Examiner, I offer a stipulation which has been entered into between the Staff counsel and counsel for Phillips Petroleum Company and ask that the stipulation be copied into the record.

[5486]

PRESIDING EXAMINER: Is there any objection?

(No response.)

PRESIDING EXAMINER: Have copies of the stipulation be made available to the other counsel.

MR. McALLISTER: There have been no other counsel here except that it was made available to Mr. Lee and Mr. Joffee, Mr. Torkelson of the Wisconsin Commission and they stated to me that they had no objection.

You will recall at the time I discussed the matter of probable ability to enter into a stipulation that we took a recess for a half a day, and I stated at or about that time that we had not taken in this stipulation in any way to deal with the matters which the City of Kansas City, Missouri had undertaken to prove through witnesses with respect to the movement of gas sold and delivered by

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Phillips Petroleum Company to Cities Service Gas Company. In the first place Mr. Joffee was not here at that time to aid in the formulation of the stipulation, and I have since called his attention to the statement made and he said it was satisfactory to him.

PRESIDING EXAMINER: Mr. Tulane, of course, is here. I wonder if he had seen a copy of it.

MR. TULANE: Had Mr. Torkelson looked it over?

[5487]

MR. McALLISTER: He did. There may be some changes in here, but it was merely a word changing.

MR. TULANE: Well, I am satisfied, then, that it is substantially correct.

* * *

PRESIDING EXAMINER: The stipulation referred to by Staff Counsel has been approved by the Examiner and will be transcribed in the transcript at this point and, of course, filed with the Secretary of the Commission.

[NOTE: This stipulation appears in the Joint Appendix as Appendix B following the dissenting opinion of Commissioner Buchanan which may be found on Record pages 10,955-10,959. It is not printed here to avoid duplication.]

[5519]

PRESIDING EXAMINER: Exhibits 3 to 7, inclusive, are obviously quite relevant to a rate proceeding, but I can see no relevance of these exhibits to the question of jurisdiction.

The objection is, therefore, sustained to Exhibits 3, 4, 5, 6 and 7. They will be marked excluded, offer of proof, exception and filed with the commission.

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[5528]

B. P. STOCKWELL

was called as a witness, and after having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. McAllister

Q. Mr. Stockwell, what is your name, please? A. B. P. Stockwell.

Q. Where do you reside? A. Kansas City at the present time.

Q. Kansas City, Kansas? A. Kansas City, Missouri.

Q. I believe you are employed by the Federal Power Commission?

[5529]

A. I am.

Q. In what capacity? A. Natural gas engineer.

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[5534]

Q. Mr. Stockwell, what do you understand by the term gathering as it is used in the natural gas industry? A. Gathering is a descriptive term used to describe operations by which gas is produced from a number of wells and assembled at a common point through connecting pipe

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[5535]

lines generally referred to as field lines.

Q. In that definition, as you have given it, what do you mean by the phrase "common point"?

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[5536]

Q. Referring to the last question I gave you, Mr. Stockwell, will you give your answer beginning at the first? A. I believe you asked me what I referred to as common point?

Q. That is right. A. I consider it that point at which gas from a group of wells is assembled into a common line which line is designed and built to carry or convey that volume of gas either to a processing plant or to a pipe line, transmission line.

Q. You meant when you referred to pipe line there, you are referring to a transmission line as distinguished from another field line? A. I am referring to a transmission line.

Q. When does gathering end? A. Gathering of gas cannot extend beyond the point

[5537]

where common pipe line enters the processing plant or connects with a transmission line. Gathering may, however, under certain circumstances end at a point short of the processing plant. It is impossible to state in general terms where gathering will end in all circumstances. I have undertaken only to fix an ultimate limit of gathering in my statement of where gathering ends.

BY MR. SPARKS:

Q. Are you reading your answers, Mr. Stockwell?

MR. McALLISTER: Yes, he is.

MR. SPARKS: I have no objection. It just appeared that he was and I just thought—

MR. McALLISTER (interrupting): I have asked him to make them exact.

BY MR. McALLISTER:

Q. Mr. Stockwell, what do you understand by the term processing plant? A. The term processing point generally describes plants wherein heavy hydrocarbons are extracted from natural gas or where gas is treated for the removal of sulphur or for the purpose of dehydration. Any one or all three of these processes may be consummated at one point or in one plant. This process may also be performed at other places than in the field, such as places along a transmission line.

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[5538]

Q. Do you mean by your last statement, Mr. Stockwell, that processing is entirely unrelated to gathering? A. It most certainly is. It is an individual process in itself and is not related to any other, necessarily related to any other, gas operation.

Q. From your experience in the natural gas industry can you give us some examples to show that processing is a distinct operation separate from gathering? A. Yes, I believe I can. When I was operating in Oklahoma during the years 1926 to '31 I operated a gas production and trans-

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mission system near the town of Bristow, Oklahoma. The gas was produced, gathered and brought to a common point about seven miles north of the City of Bristow, where it entered the transmission system and was transported to a point about a half mile north of Bristow where it was then processed in a gasoline plant and from that point transported to for distribution and sale. In that case the processing plant was not close

[5539]

to the gathering system and not connected with it, only through a pipe line, a transmission line.

Q. When you referred to processing there, what was the purpose of the processing in that plant? A. I didn't understand you.

Q. What was the processing in that plant? A. We were extracting the gasoline from the gas by the absorption method.

Q. Can you give us another example? A. Well on Panhandle Eastern Pipe Line Company system they assemble gas purchased and produced at Hugoton compressor station where gas is brought to transmission line pressure by compressors, and transmitted through a 26-inch line a distance of approximately 27 and a half miles to the Liberal gasoline plant near Liberal, Kansas, where this gas is processed to extract heavy hydrocarbons and so forth.

Q. Can you give us still another example? A. There is another example of the same kind on Panhandle where they assemble certain gas they have produced and purchased in the Hugoton field at Satanda station, where this

gas is compressed to transmission line pressure and then is likewise transported a distance of approximately 26 miles to Liberal gasoline plant, where it is processed to remove heavy hydrocarbon. Both these Panhandle Eastern operations lie wholly within the Hugoton field.

[5540]

Q. What is another example? A. Several years ago I was working on the United Fuel Gas system in West Virginia, they produced and gathered gas at various points, from which points it was transmitted through a transmission line to Cobb Gasoline plant where it was then processed, and—

Q. (Interrupting) Was that—go ahead. A. And another case in West Virginia concerns the gasoline plant at Hastings owned by the Hope Natural Gas Company. Most of the gas processed at this plant came into the plant through Hope's transmission lines and those transmission lines gathered gas for a distance of some 50 to 75 miles from the plant and maybe farther.

Q. When you say they gather gas, do you mean they carry gas— A. (Interrupting) I mean they transported gas from various points, where it was gathered, to this plant and the plant was on the transmission system in that case.

Q. In other words— A. (Interrupting) There were, however, I think, some local gas around that plant that may have come in on gathering lines from properties around the plant there proper, but large quantities of the gas that was processed in that plant were delivered to that plant through the Hope's transmission system.

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Q. What I want to get at and have the record clear on is

[5541]

that the gas was assembled in common point and gathering completed, as I understood your answer before transmission and that transmission carried over a distance of something like 75 to a hundred miles, is that right? A. 50 to a hundred miles, somewhere in that neighborhood, yes, sir.

Q. But the point I'm asking you is this, had gathering been completed before it was transmitted through that transmission line? A. Gathering had been completed at various points over the system before the gas entered this transmission system that carried the gas to the gasoline plant.

Q. I see. Do you have another example of a like situation on Hope's system? A. They had another situation of that kind in the case of their gasoline plant located at Schultz, which is over near Parkersburg, West Virginia. There practically all of the gas was processed at that plant was delivered to the plant through Hope's main transmission lines.

Q. What was the distance after gathering was completed before the gas entered the processing plant through the transmission lines? A. In that case some 40 to 50 miles, I would judge.

Q. Do you have any other examples? A. On the United Gas Pipe Line Company properties where I now have some men working, they operate a gasoline plant at

[5542]

Latex, Texas, where they process large quantities of gas. Most of this gas has been gathered and delivered through transmission system to the Latex plant.

Q. When you say gathered there you mean gathering has been completed before it enters the transmission? A. Yes, sir, that is what I mean. The transportation to this plant is of varying distances up to, I'd say, about 50 miles. Another instance of this nature existed several years ago when I worked on the Ohio Fuel Gas Company property, where they operated a gasoline plant at Crawford No. 1 station. That is located about 40 miles south of Columbus, Ohio. This processing plant—I'll say it this way, the gas that this processing plant processed was practically all brought to this plant through their main transmission lines.

Q. Where you have used processing in these various examples have you been referring to gasoline plants for the extraction of the heavier hydrocarbons? A. That is right.

Q. I believe you did state that at all of these plants or some of them, in any event, except the last one on the Ohio Fuel Gas Company's system, there was some gas produced locally which by various lines may have been brought into the processing plant, those various lines being field lines, is that right? A.There was no gas produced locally on the plant that I operated myself.

[5543]

Q. I see.

MR. SPARKS: I believe he so stated with regard to

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some of the others, but I could be mistaken.

BY MR. McALLISTER:

Q. Pass over that one, then, and the Ohio Fuel and state which of them may have or do process some gas locally as well as the gas that is brought in through transmission lines? A. Those on the United Fuel and the Hope, I feel quite sure, had some, handled some, local gas, yes.

Q. Is there any of that character of gas on the two Panhandle examples that you gave us where the gas would be brought into the Liberal gasoline plant? A. Liberal plant handles the gas that comes in from the two main compressor stations I mentioned. It also handles some gas that comes in from a field, a section of the field, there southwest of the Town of Liberal that comes in direct from the field.

Q. Do you mean field lines? A. Yes, I think at a lower pressure, I'm sure at a lower pressure than the pressure at which these other lines deliver.

Q. Are the processing plants in the examples which you have been giving to us a part of such local gathering facilities? A. They are certainly not a part of the gathering facilities as I see it. Furthermore in these cases I have mentioned the major portion of the gas processed in these plants come through

[5544]

the transmission system before being processed.

Q. Have you examined Exhibits Nos. 45-A, 45-B, 45-C, 45-D, 45-E-1, 45-F-1, 45-G-1, and 45-H-1 in this docket? A. Those are flow diagram exhibits?

Q. That is right. A. I did examine them, yes, sir.

Q. From a consideration of those exhibits, being flow diagrams of the Sherman, Hansford, Sneed, Dumas, Gray, Eunice, Fullerton, Goldsmith and Crane plants operated by Phillips Petroleum Company, would you say that there is anything extraordinary or unusual about those plants as compared with the ordinary run of plants with which you are familiar? A. There was nothing I could see from those diagrams, no, sir.

Q. From your study and examination of those exhibits does it appear the operation of those plants constitutes a part of gathering?

* * *

THE WITNESS: No, they are definitely processing plants.

[5545]

I can't conceive of anyway they could be considered a part of gathering. In fact, I have been in the business for 30 years and I never heard of classifying processing plants with gathering systems until Saturday here when I heard it in this court room.

BY MR. McALLISTER:

Q. It has been testified in this case that gathering of natural gas is not completed until the gas gathered has been disposed of, for example, sold and delivered to another company, flared or consumed in some device by the gatherer or the like. Do you agree with that? A. I certainly do not. Gathering, processing and transmission—

Q. (Interrupting) And what, transportation? A. Trans-

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portation, through the transmission line, maybe completed before the gas is disposed of.

Q. Then you would not agree that the flaring of gas out of a gasoline plant is a part of gathering? A. No. As I said before it is a part of the operation of that gasoline plant if they do that, and I said that gasoline or the processing plant was no part of gathering.

* * *

[5546]

HARRY P. STEVENS

was called as a witness, and being first duly sworn, was examined and testified as follows:

[5547]

Direct Examination by Mr. McAllister

Q. What is your full name, Mr. Stevens. A. My name is Harry F. Stevens.

Q. Where do you reside? A. Washington, D. C.

Q. I believe you are employed by the Federal Power Commission? A. Yes, sir.

Q. In what capacity? A. Natural Gas Engineer.

* * *

[5550]

Q. Is a natural gas plant and a natural gas processing plant the same thing, Mr. Stevens? A. Not necessarily. A natural gasoline plant for the extraction of heavier hydrocarbons may also have installations for sulphur removal

and dehydration. In that case they would be substantially the same. However, different plants may be maintained for each purpose, namely, to extract heavy hydrocarbon, to remove sulphur or for dehydration purposes.

Q. Is a natural gasoline plant or a natural gas processing plant in any way a part of the gathering of natural gas? A. No.

MR. SPARKS: I object again to this witness' testimony in expressing an opinion—I assume it is conceded that is what he is expressing—with regard to what constitutes a gathering of natural gas for the reason that I don't believe he has been shown to be qualified to have an opinion as to the use and meaning of that term as it is used in the industry.

* * *

[5552]

BY MR. SPARKS:

Q. Mr. Stevens, are you also reading your answers? A. Yes, sir.

MR. McALLISTER: I'll give you a copy of it as soon as we have finished, Mr. Sparks, if it will be of any assistance to you.

MR. SPARKS: I'll get my copy from the official reporter.

* * *

[5560]

PRESIDING EXAMINER: Strike out "and an examination

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[5561]

and study of the exhibits", from there on.

BY MR. McALLISTER:

Q. Do Exhibits Nos. 12-A, 13-A and 45-A support you in the conclusions which you have expressed, Mr. Stevens? A. Yes, I think they do.

Q. Would you say that gathering is an adjunct to processing or transmission? A. Yes, I would since the only reason for gathering natural gas is to assemble the gas for processing and transportation.

Q. Where the gas is assembled merely for processing through a gasoline plant, what would you say there? A. When that is the case, the gathering of natural gas is to assemble such gas for the recovery of natural gasoline as a prime objective and other recoverable hydrocarbons, and if you say, for instance, that the substantial part of the residue gas is flared and doesn't go to a pipe line, the gathering may be said to be an adjunct to manufacture, since the gathering is for the assembly of a raw material which by manufacture or process is converted into natural gasoline, propane, butane or other marketable products. In such a case, the gathering system is but a plant facility.

Q. It has been testified in this case that the gathering of natural gas does not end until the gas reaches

[5562]

the point of disposal, that is, where the so-called gatherer sells and delivers the gas to another person, flares or vents the gas or consumes the gas under boilers or injects gas returned to leases or the so-called gatherer into gas or oil-

producing formations at the bottom of an injection well, where such disposal occurs after processing in a gasoline plant. Do you agree with such a concept? A. I cannot possibly agree with such an idea. Gathering ends when natural gas has been assembled at some common point of flow, point of common flow, in a pipe line designed to carry that gas to a processing plant or to some connecting transmission line. Gathering cannot possibly extend beyond the processing plant. It may end short of the processing plant. That determination depends upon a study and consideration of the facts in such instances.

Q. Is the character of the natural gas altered in a gasoline processing plant? A. The residue from a gasoline plant or processing plant is essentially the same. The proportion of the constituent elements is altered. If the gas passes through a desulphurizer, the objectionable sulphur is removed. Chemical elements making up the heavier carbons are reduced as the natural gas passes through the absorbers in the gasoline plant. Moisture and water vapors are removed by dehydration. However, natural gas processed through such plants, which

[5563]

gas is destined for pipe line transportation to domestic markets and industrial use has a btu content on the order of 975 to 1,000 Btu's per cubic foot. The constituent elements remain. The proportion of some of the elements to the total has, of course, been altered.

Q. But it still remains natural gas, is that right? A. Yes, sir.

* * *

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[5567]

MELWOOD W. VAN SCOYOC

was called as a witness, and after being first duly sworn, was examined and testified as follows:

Direct Examination by Mr. McAllister

Q. What is your full name, Mr. Van Scoyoc? A. Melwood W. Van Scoyoc.

Q. Where do you reside? A. Alexandria, Virginia.

Q. I believe you are employed by the Federal Power Commission? A. I am.

* * *

[5570]

About six months after going with the Federal Power Commission I was placed in charge of that work as Chief of the Division of Original Costs, and my activities in that work continued until I went on military leave with the army in July 1942. I returned to service with the Commission in September of 1945 as Assistant Chief of the Bureau of Accounts, Finance and Rates.

In that position I have supervisory responsibility covering the four divisions of the bureau. The Division of Accounts, the Division of Rates, the Division of Finance and Statistics and the Division of Gas Certificate. I have been actively associated with the activities of those particular divisions and their duties and responsibilities since that time.

Q. Are you familiar with the rules and regulations of the Federal Power Commission insofar as they relate to

[5571]

natural gas companies — A. (Interrupting): Yes, sir.

Q. (Interrupting): —as such term is defined in the Natural Gas Act? A. Yes, I am.

Q. How many of the companies which report to the Federal Power Commission as natural gas companies are engaged in the production of natural gas? A. There are about sixty such companies.

Q. How many of the companies are classified as A and B companies? A. Fifty-four.

* * *

[5583]

Q. I think you just stated, Mr. Van Scoyoc, in answer to a question as to how many companies report to the Federal Power Commission—put it this way, how many of the companies which report to the Federal Power Commission are natural gas companies and are engaged in the production of natural gas and you answered, as I recall it, 60 such companies. Now, how many of those companies fall in the class of reporting companies classified under the uniform system of accounts as Class A and class B companies and what is that classification?

MR. SPARKS: May I have a continuing objection to this line of testimony.

PRESIDING EXAMINER: Yes, you have a continuing objection.

THE WITNESS: There are 54.

MR. SPARKS: I didn't hear the answer.

THE WITNESS: There are 54 such companies and that

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classification covers companies whose gross operating revenues exceed $250,000 per annum.

BY MR. McALLISTER:

Q. How many producing gas wells are owned by such companies, the 54 companies? A. There are 30,162 producing gas wells.

Q. And how many oil wells?

[5584]

A. 622.

Q. In addition to the 60 companies which you mentioned, are there other companies reporting to the Federal Power Commission as natural gas companies which do not produce gas but do carry on field operations and in some cases process natural gas? A. Yes. There are eight such companies who gather and process gas but do not have producing wells of their own.

Q. As to those 54 natural gas companies in the classification that you have designated at "A" and "B" companies, that you have mentioned as owning producing wells, do those companies also gather and process natural gas? A. Yes. Most of those companies engage in those operations.

Q. Upon what do you base your statement that those companies are engaged in procesing operations? A. I base my statement on the reports which are made to the Commission by such companies and I included in the word process the extraction of liquid hydrocarbons and the removal of sulphur, water and other impurities.

Q. Are a substantial number of those companies which

you mentioned performing such activities in the midcontinent and southwest section or sections of the United States? A. Yes, they are.

• • •

[5585]

Q. What proportion of the 54 companies operating in the southwest and midcontinent area are engaged in the activities of producing, gathering and processing of natural gas within the states of Arkansas, Kansas, Mississippi, Louisiana, New Mexico, Oklahoma and Texas? A. About one third of the 54 companies, 17 of them to be exact.

Q. Are any of the other "8" companies, I mean that is the difference between the 60 who are natural gas companies and the 54 which are classified "A" and "B" companies, are any of the other eight companies engaged in gathering and processing activities and reporting to the Federal Power Commission as natural gas companies conducting their operations in the seven states you have mentioned? A. Yes, there are six of those companies in that area.

Q. Have you been in attendance in this hearing room during the course of the proceedings in this docket? A. Yes, I have, except for a period of three days.

Q. Were you present when the witnesses Giles, Thompson, Murray, Cavett, Davis, Baumel, Spurrier, Capshaw and Jones testified in this proceeding? A. Yes, I was present.

Q. Have you examined the various exhibits placed in evidence in this proceeding by counsel for interveners and respondent which related to duties, functions, rules, regulations

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[5586]

and orders of the Texas Railroad Commission, the Oklahoma Corporation Commission and the New Mexico Oil Conservation Commission? A. Yes, I have.

Q. With respect to the production and gathering activities of the natural gas companies which you mentioned as reporting to the Federal Power Commission, has the Federal Power Commission ever issued any rules, regulations or orders which relate to the duties or functions of the three state agencies described by the above enumerated witnesses?

* * *

Q. (Interrupting) And or as indicated by the exhibits to which I have referred?

* * *

[5587]

A. No, the Commission has never issued any such rules, regulations or orders which relate to the production and gathering activities of natural gas companies reporting to the Commission.

BY MR. McALLISTER:

Q. Or any of them? A. Or any of them.

Q. And you omitted the word processing in your answer. Did you intend to include that? The question specifically asked you regarding processing. A. Well to answer your question on processing, there may have been a case where a natural gas company applied for a certificate to build a new pipe line and they may have included the processing plant as a facility and requested a certificate

thereon. It is possible that the Commission in entering an order granting the certificate may have granted it in the terms of the facilities applied for rather than specifying certain lines or facilities.

* * *

[5611]

Q. The other day during the questioning of Mr. R. R. Spurrier, a member of the Oil Conservation Commission of the State of New Mexico, the question arose as to whether the Southern Union Gas Company was a natural gas company reporting to the Federal Power Commission. Do you know of your own

[5612]

knowledge whether that company files any reports or otherwise reports to the Federal Power Commission as a natural gas company? A. It does so report to the Federal Power Commission.

Q. Do its reports to the Commission show it's engaged in the production, gathering and processing of natural gas in the states of Texas and New Mexico? A. The reports so show.

Q. Has the Federal Power Commission in the regulation of the natural gas companies subject to its jurisdiction ever fixed the amount to be paid by a natural gas company to any royalty owner by such natural gas company? A. No, sir, the Commission has never fixed the amount of the royalty payment by a natural gas company which is a producer to a royalty owner.

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[5613]

Q. Has the amount paid been recognized as a cost in all matters where costs are involved and under consideration? A. Yes, sir.

Q. Are natural gas companies under any circumstances required to obtain certificates of public convenience and necessity for the construction or operation of gathering lines or facilities? A. No, sir, they are not. In fact, in one case the Commission specifically disclaimed jurisdiction where a certificate had been applied for.

Q. What was that case? A. That was the case of Arkansas-Louisiana Gas Company, and is cited in 7FPC766.

Q. When you say 7FPC766, you are there referring to the reports of the Federal Power Commission? A. I am.

* * *

[5614]

Cross-Examination by Mr. Sparks

Q. Mr. Stockwell, what is the purpose of gathering? A. To assemble the gas.

MR. TORKELSON: Mr. Examiner, may we request that the witness speak louder so we can hear him over here?

PRESIDING EXAMINER: Yes, will you speak a little louder, please?

THE WITNESS: The purpose of gathering is to assemble the gas to a common point and then deliver it into a transmission system or deliver it to a point of disposal.

BY MR. SPARKS:

[5615]

Q. Let's assume—

MR. McALLISTER (interrupting): Will you speak up a little louder so the witness can get all the question, Mr. Sparks?

MR. SPARKS: I'll try to, Mr. McAllister.

MR. McALLISTER: I'll appreciate it if you would. If I can't hear it plainly, I'll have to ask that it be read and I want to avoid that if I can, Mr. Examiner, but it is for the benefit of the witness.

PRESIDING EXAMINER: Yes.

BY MR. SPARKS:

Q. Now, let's assume that wherever gathering ends under your concept of gathering the gatherer at that point delivers the gas to a transmission line, however you define transmission line. Do you understand the question? I mean the statement. Now, the question is what was the purpose of that gathering? A. You say what was the purpose of that gathering?

Q. Yes. A. On your assumption that it is gathered and brought to a point where it is delivered into transmission lines?

Q. No. The assumption is that the gatherer gathers it to the point, whatever that point may be, where you say that gathering ends, and at that point sells it and delivers it to a transmission line, and the question is what was the

[5616]

purpose of that gathering? A. On that assumption the only purpose I can see is to make the delivery.

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[5623]

Q. That is right, you may presume if you wish there is no market. My question to you is what is the purpose of that gathering? A. If you did that, which would be rather unusual in the experience I have seen in the industry, I can assume no purpose you'd have in gathering that gas to bring it to that point to flare it under those conditions unless you wanted to burn it all through one flare instead of a flare at each well.

Q. Well, you may assume that is what you want to do? A. That would be your purpose to burn the gas so you could dispose of it through one flare instead of several flares.

Q. When were you in Oklahoma? A. Do you mean—

Q. (Interrupting) What year? A. When was I there?

Q. Yes.

[5624]

A. From 1921 to 1931.

Q. Had the Oklahoma City field been discovered at that time? A. Had what?

Q. Had the Oklahoma City field been discovered at that time? A. Yes, sir, I believe it had. I don't remember. Yes, I believe it was.

Q. Did you live in Oklahoma City? A. Yes, sir.

Q. Don't you know that there were millions of cubic feet of gas flared in exactly the manner in which we are speaking of out of that Oklahoma City field? A. I know there has been considerable gas flared there and part of it may have been assembled through gathering lines and

flared through one flare and part of it has been flared through single flares from the one well, I know that, too.

Q. But you don't know whether it had been gathered from several wells and flared through a single flare? A. I don't know of any that has been gathered through a number of lines and flared through a single flare, but that undoubtedly has been done. It has been done on gasoline plants where they didn't have a market for it. That is gathering it and bringing it to a processing plant and after processing they have flared the residue down there in some cases. That would be

[5625]

in line with your supposition, excepting in that case they have a processing plant and in the case you mentioned they didn't have a processing plant.

Q. In the instance you mentioned, what would be the purpose of the gathering there? A. The purpose of the gathering there would be strictly an economic proposition to get what gas they could gathered to deliver it to a processing plant and the purpose of gathering to bring it to that processing plant would be to process it and get what money they could out of the products they could take out of it through a processing plant before they flared it if they had no market for the residue.

* * *

[5649]

Q. Mr. Stockwell, I hand you exhibit No. 188. Do you see on that exhibit some small round circles? A. Yes, sir.

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[5636]

MR. SPARKS (interrupting): I asked him the question whether or not the gas through those four lines had been collected together in a single mass of gas prior to the time when it entered the common header at the intake of the engines. That was the question, and I want it answered.

PRESIDING EXAMINER: Speaking now purely of a physical situation, do you understand the question?

THE WITNESS: Answering his question on that basis only and not as a measure of where the gathering ends, it is very evident to anybody that all the gas never gets into that plant until all the gas gets in from all those lines into one spot.

BY MR. SPARKS:

Q. Then under your concept of gathering, gathering ends before the purpose of the gathering is accomplished? A. No, sir.

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Assume that those are gas wells? A. Assume that they are what?

Q. Gas wells. A. Gas wells.

Q. And you also see some solid lines, do you not? A. Dotted heavy lines, yes, sir.

Q. No, I say you also see some solid lines? A. Solid lines, yes, sir.

Q. And by the side of which there are some numerals? A. That is right.

[5650]

Q. For example, one of them has the numeral 4 with two dots by the side of it, meaning four inch. That is the common method of designation for four inch, is it not? A. That is correct.

Q. And you also see a heavy dotted line, do you not? A. A heavy broken line, yes, sir.

Q. And the heavy broken line is marked transmission line? A. It is.

Q. Now assume that company "A" owns all of the wells on Exhibit 188 that are located on the right-hand side of the longer line which runs generally from the bottom of the exhibit towards the top of the exhibit. A. The line you have marked 6, 8 and 10 inch?

Q. Yes, sir. A. Yes, sir.

Q. And assume that other producers own the wells which are located on the left-hand side of that line and that company "A" has a contract to purchase the gas produced from those wells from those producers, the purchase to be made and the delivery to be made to company

"A" at the wells. A. Pardon me for interrupting, but the wells on the left-hand side are purchase gas wells?

Q. That is right, other producers. A. And the wells on the right-hand side are—

Q. (Interrupting) The wells on the left-hand side are

[5651]

wells from which gas is being purchased by company "A" and the wells on the right-hand side are wells on leases that are owned by company "A" itself. A. And your right and left-hand refers to you standing on the 6, 8 and 10 inch and facing the transmission line?

Q. Right. Assuming company "A" lay the lines which are marked on this diagram as 4-inch, 6-inch, 8-inch and 10-inch and takes gas from each of the wells and sells and delivers such gas to company "B", which owns and operates the transmission line, the heavy broken line on the diagram, and assume that the point of delivery of the gas into the transmission line of Company "B" by company "A" is at the point shown on the diagram where the 10-inch line joins or connects with the transmission line? A. In other words, there is a sale measure station up there at that point?

Q. And assume that there is a metering station on the 10-inch line just prior to the delivery or connection of the 10-inch line into the transmission line, and that all of that solid lines are owned and operated by company "A". Under your concept of gathering where would gathering end under the operations which have been assumed and as related to the diagram, Exhibit 188? A. The diagram 188

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shows no distances on the gathering system thereon. From this diagram and not knowing anything about

[5652]

the layout other than appears on this diagram I would say gathering ends at the transmission system just the same as I said in my direct testimony.

Q. I take it by that that you mean at the point where the delivery is made into the various lines— A. (Interrupting) Where company "A" delivers to company "B", which, you stated, was in the immediate vicinity of the transmission line or the point of connection of the company "A's" lines with company "B's" lines.

Q. Would you place an "X" on Exhibit 188 at that point so there won't be any question in the record as to the point.

MR. McALLISTER: How are we going to show that that was put on there by the witness?

MR. SPARKS: Because the testimony will reflect it.

MR. McALLISTER: Mr. Examiner, I object to any change being made on the exhibit because that is in the record and I presume we are going to get copies of it.

THE WITNESS: I'll take it off. I haven't put anything on there yet.

PRESIDING EXAMINER: That is the difficulty we ran into, of course, in connection with having the witness mark lines on the other maps. I think it does present something of a problem.

MR. SPARKS: It is a different proposition, though Mr. Examiner, where the exhibit is the exhibit of the

party who is requesting that the point be marked on the exhibit and also a

[5653]

different proposition when none of the duplicates have been made. These will have to be made by photostat so anything put on there will undoubtedly appear on the photostat.

MR. McALLISTER: That doesn't help the problem at all for the simple reason the exhibit has been marked and as marked it is an entity and the maps we had before there were errors on them and it was merely trying to work out some arrangement whereby the maps that respondent had submitted could be corrected, and we did it in what we thought was the reasonable way, but we did run into difficulty.

This is an entirely different situation. We have an exhibit here and to have the witness directed to put marks on there hither and yon, it can be very well definitely stated where the point is.

MR. SPARKS: I'm not making any point of it. As a matter of fact, I can see from the marks that the witness did make on the exhibit that it might serve to confuse rather than clarify.

MR. McALLISTER: It wasn't what you expected?

MR. SPARKS: It wasn't what I expected.

PRESIDING EXAMINER: All right, let's proceed.

MR. SPARKS: Because I want the matter to be clear in the transcript and in order that it will be absolutely clear, I take it from the witness's testimony that the gathering ends at the point where the solid line connects into

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the dashed line marked "transmission line", which is the point at which we have assumed

[5654]

the delivery was made to company "B", the transmission company.

BY MR. SPARKS:

Q. That is what you said, was it not? A. I have stated that from this chart without any measurements on it or anything, that is the best place I could conclude that it ends. Now, if the distance might be considerable between the last well entering into that gathering system and the company "B's" transmission line there might be a portion of that line that was actually company "A's" transmission line, part of the solid line there. I don't know what your distances are and your diagram doesn't show.

Q. Assume that the gas from the last well as shown on the diagram goes into that line at a point which was a mile from the point at which the solid line connects with the transmission line but still within the field of production. Would not that mile of line still be a part of company "A's" gathering system? A. It might or might not depending upon the manner company "A" decided to designate it. The fact that the line is running through a producing field does not determine that it is a gathering line. If there is a mile in there that gathering has not been completed before it traverses that mile, and a mile would hardly be a distance that anybody would be too particular about whether they called it a gathering line or a transmission line, but the fact that it is in the producing field

makes no difference, it has no bearing upon what that line is. We have lots of

[5655]

transmission lines in producing fields, transmission lines.

Q. What is the distance which determines whether it is a gathering line or a transmission line from the point where the gas enters the gathering system from the last well and the point where the delivery is made to the transmission line? A. When your gathering function is completed on a certain system and there is no more additions made to that streamlined flow that is on its way either to the inlet side of a gasoline plant or to a transmission line, I think gathering has been completed. Of course, I realize, as well as you, that at sometime in the future another well may be drilled along that interval at which time a part of the line that would have previously been termed transmission would naturally convert to part of the gathering system.

Q. I believe you stated that the function of the gathering where the gas was delivered to a transmission line, as in this example, was for delivery of the gas for transmission, did you not? A. I didn't understand all that question. I think I did but would you read it please.

(The question was read by the reporter.)

MR. McALLISTER: I don't understand the witness related that answer or any such answer to this problem.

THE WITNESS: I did—pardon me.

MR. McALLISTER: Go ahead.

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THE WITNESS: I said that the function of gathering was to

[5656]

deliver the gas to a point where it could be transported through a transmission line to ultimate point of delivery, but I didn't say that the mere fact that you have named this one line a transmission line and you have drawn lines to it, that no part of the line that you drew to it couldn't be a transmission line to which that gathering system was carrying gas.

BY MR. SPARKS:

Q. I understand that, but you stated that if the distance between the point where the last well came into the 10-inch line and the point of delivery at the transmission line was a mile that it wouldn't make much difference which way it was classified? A. I think it would be rather immaterial whether you called it transmission or gathering line, that little piece, while theoretically and actually all gathering has been completed at the time the 4-inch line from that last well nearest the pipe line enters that line, but I think there would be a question about calling the rest of that line from that 4-inch connection to the 10-inch there, from that point up to the transmission line, a gathering system if it was 10 miles or something like that in there between that point. I wouldn't be inclined to call all that line a gathering line.

Q. In making your last statement, Mr. Stockwell, are you testifying as to how you would classify it or as to the concept of gathering as it is used in the industry? A. I'm talking about the concept of gathering in the

[5657]

industry that I understand from various operators in the industry. After all, there has to be some practical common sense used in the determniation of these matters. It can't all be done by some rule down to the last foot.

Q. Then it is largely a matter of opinion, is it not, within certain limits, of course? A. I would say that the individual operators opinion has a lot to do with just when he would call that interval between the last 4-inch connection and this here transmission line, when he would call it a transmission line and how long he would leave it a field line, yes, sir, I mean a gathering line.

MR. SPARKS: We request that a yellow sheet containing a number of lines and some figures be marked for identification as Exhibit No. 189.

PRESIDING EXAMINER: It will be so marked.

(THE DOCUMENT ABOVE REFERRED TO WAS MARKED AS EXHIBIT NO. 189 FOR IDENTIFICATION.)

[5658]

BY MR. SPARKS:

Q. I hand you now Exhibit 189 and ask you to assume the same facts and situation which was assumed with reference to Exhibit 188, but in order that it will be easy, just assume that the distance between the point at which the last gas is delivered into the solid line, the 10-inch line, and the connection to the transmission line is, oh, say, a couple of hundred yards. A. That is, between the 10-inch residue line from the processing plant—

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Q. (Interrupting.) No, the point at which the last gas is delivered into the 10-inch line from a well through a line which is marked "4-inch" and the point at which there is an intersection of a 10-inch line with the transmission line. A. Yes, sir.

Q. In other words, that is the distance between those two points? A. Two hundred feet?

Q. Well, make it two hundred feet. That is good enough. Two hundred yards is what I said. It doesn't make any difference, I don't believe. A. O. K.

Q. In Exhibit 189 there is a block valve in the 10-inch line which is marked with "X" and which lies between

[5659]

the point where the gas from the last well enters the 10-inch line through a 4-inch line and the transmission line. You observe that "X"? A. I do.

Q. That block valve is closed, and there is a take-off upstream from the block valve carrying all the gas which is taken into the 10-inch line a distance of another two hundred feet at right angles to the 10-inch line to a circle, to a processing plant, which is marked on your diagram as a circle. Do you see that? A. I see that.

Q. And that gas has come through the processing plant which we will assume is an absorption type processing plant, and the residue gas from the absorbers and from the overhead vapors of the fractionator are taken through the 10-inch line as shown on the diagram back to the 10-inch line which intersects with the transmission line at a point which is downstream from the block valve.

5659

Anyway the take-off to the plant after the last gas is delivered into the 10-inch line and before it gets to the block valve, which, of course, blocks the gas off at this point. A. Where is that pop valve you are talking about?

Q. The block valve. A. Oh, the block gate, yes.

[5660]

Q. And that block gate is closed, and my question to you is where the gathering ends when the gas from these wells is taken into the processing plant and the heavier hydrocarbons extracted and the residue gas from the overhead vapors from the fractionator deliver to the transmission line at the same point at which delivery was made on Exhibit 188.

MR. McALLISTER: Mr. Examiner, may we have that question read, please?

PRESIDING EXAMINER: Read the question.

(Question read by the reporter.)

[5661]

MR. McALLISTER: In this question related to Exhibit 189 it is referred to as a processing plant and another place as an absorber. We can eliminate that if we knew where the fence line was around that plant. If the circle is the entire plant in the enclosure that is one thing, and if that is the absorber, that is quite another thing, but as it stands now, it is impossible even with the question clear to understand what this entire matter involves. It is a very rough sketch of the presumed problem and the plant fence is not shown. They say 200 feet over there

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and it is 200 feet from the transmission line down to the last 4-inch line that is coming in, so that if there is 200 feet in relation to that it looks like it is a segment of the inner works of the gasoline plant, maybe the absorber, I don't know.

I object to the question and the diagram when a question is related to the diagram in this fashion, unless it is made perfectly clear.

PRESIDING EXAMINER: The objection is overruled.

Do you understand the question, Mr. Stockwell?

THE WITNESS: I think I can state it and see if I do understand it.

PRESIDING EXAMINER: All right.

THE WITNESS: Did I understand in the first place, Mr. Sparks, this is the same four purchase wells and two producer wells we had on the other diagram?

BY MR. SPARKS:

[5662]

Q. That is correct. A. And the gas is gathered through these lines and brought up to a point near this block gate?

Q. That is right. A. Where it is delivered into the processing plant through a line shown here to the right?

Q. That is correct. A. And passes through the processing plant and is returned to the 10-inch line on the downstream side of the block gate and delivered into the transmission line.

Q. That is, the residue gas. A. The residue gas, that is what I mean.

Q. That is correct. A. And your question is where does

gathering end in this instance?

Q. That is correct. A. In answering this question I am assuming your circle represents the outside limits of a regular processing plant that you have got there.

Q. Very well, go ahead.

BY MR. McALLISTER:

Q. Do you mean fence line? A. What? Fence line, yes, including all—in that case, as I have stated, in my previous testimony, gathering ends at that fence line or at the outside edge of the processing plant on the

[5663]

inlet side of that processing plant.

BY MR. SPARKS:

Q. Very well, now, let's crack that block valve and let half the gas go directly into the transmission line without going through the processing plant and half of the gas go through the processing plant as in the previous question. My question to you then is when does gathering end as to the two lots of gas? A. Well, you have a situation in that connection that is not usually found, not very often found. And so far as I can see since the processing plant is no part of a gathering system, your gathering system there would be ended insofar as the gas passing to the processing plant at the inlet side of the processing plant, but the gas going straight through would have to be considered as gathering system, I suppose, until you got to the transmission line. That is a very unusual and extraordinary case. If your are going to put a processing plant there, I don't know why you would put one there unless

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you intended to process the gas that was available for processing.

* * *

[5670]

HARRY F. STEVENS

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

[5671]

Cross Examination by Mr. Sparks

Q. I believe you stated, Mr. Stevens, yesterday, that after you graduated from the Colorado School of Mines with a degree of Petroleum Engineer in 1923, your first employment was with the Empire Company in Bartlesville, is that right? A. Yes.

Q. What were your duties in that employment?

I'll make that more specific. As I understood your testimony you said you were transferred in 1924 to the Henry L. Doherty Company, so I'm speaking of the period when you were working for the Empire Company, which was in 1923. A. Yes, sir. I think you refer to that period which might be generally described as during the junior engineer's course, it is generally referred to.

Q. That is a course that was given by the company to young engineers when they are employed, is that right? A. As I recall at that time every young engineer came into the employ of the company went through that course if

you were an engineer, and by "course", perhaps the term is a little bit loose. It consisted of assignments to various types of experience and

[5672]

it is a course in the sense that you gained some instruction and you also worked, so that was the character, the intent and character of the assignment.

Q. How long did that last, that course? A. I believe the course was two years, and whether one continued the full two years of the course depended on whether during this schedule of assignments he found something that he thought he would like to continue work in or someone requested his services in a particular activity and he accepted a permanent assignment to that activity, whether it be production or what-not.

Q. Of what did the course consist insofar as you took it? A. In my case, my first assignment, and I think I can keep these in chronological order, was the keeping of time and costs on a natural gas pipe line construction job in Kansas.

Q. In Kansas? A.Yes, sir.

Q.Did that continue up to the time you went with the Doherty Company? A. No, sir.

Q. Well, then, go ahead. What was your next assignment. A. The next one was the construction of an oil pipe

[5673]

line job of which I had charge. It was an assignment that covered, I think, about three months, although I'm sorry

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but I don't think, I can be specific as to these intervals.

Q. It has been a long time ago. A. Yes, sir.

Q. And do you recollect where part of that was, where that line construction was? A. It terminated at the Cushing Refinery.

BY MR. McALLISTER:

Q. Where is that? A. Oklahoma.

BY MR. SPARKS:

Q. After that assignment do you recall your next assignment? A. After that I was assigned to the refinery division which involved two phases of work, for a short time I was in the Tulsa office of the refinery division, and as I recall there I was studying whatever literature was available in the library, and, as I recall, there was some operating statistics. That phase of the assignment was relatively short, and I then went to the Cushing Refinery where I did some work in experimental gasoline treating. At the conclusion—

Q. (Interrupting): Is that an oil refinery you are

[5674]

speaking of, at Tulsa? A. Yes, sir, at Cushing.

Q. Cushing, yes. A. The next one following that, the next assignment following that, was an oil production at Oil Hill, Kansas. It was at that time and during that assignment that my assignment was requested to Henry L. Doherty and Company at New York, and I left on that assignment.

Q. Were you employed in New York on that assignment? I mean when you were with the Doherty Company.

Did you live in New York? A. Yes, sir.

MR. McALLISTER: Might I ask a question?

BY MR. SPARKS:

Q. I believe according to your testimony you were with them from 1924 to 1927, working principally on statistical analyses? A. That was my principal activity, yes, sir.

[5675]

Q. I believe you stated then that in 1928 you were temporarily assigned to the gas division of the Empire Company, is that right? A. I think I stated there another intervening activity. I think I am sure I did. My first activity on being reassigned to the Midcontinent area was a search for oil leases which were to be later repressured.

Q. That is stated in your statement, and I related it to your employment with the Doherty Company, but that was after— A. (Interrupting) No, sir, it isn't. That was back with the Empire Companies again.

Q. You were engaged in searching for oil leases that might be purchased for repressuring operation, as I understand? A. Yes, sir.

Q. How long did that assignment continue? A. I don't know whether I can tell you that or not. I don't believe I can tell you that except it was in the order of a few months.

Q. That is sufficient. At any rate, at the terminous of that assignment you continued with the Empire Company, and it is not material which one, on a temporary basis for the purpose of testing, I believe you stated, some 600 wells of the Missouri-Kansas Pipe Line Company? A. I think that is a little bit in error. I was not continued on a temporary basis for the Empire Companies. I was

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[5676]

requested for a temporary assignment for the testing of these wells.

Q. What type of tests did you perform on the wells? A. These were ordinary Pitot Tube tests or orifice well tester tests of gas wells. It is obvious from this that the wells were not large wells.

Q. And I believe you stated that your next assignment concerned the investigation, experiment and development of underground storage in depleted gas fields and gas storage by other means, is that correct? A. Yes, sir.

Q. And you continued in that work until 1936, is that right? A. Yes, sir. With the addition of minor other work, which to which, that was the major.

Q. Then from 1936 until 1939 you were employed by Stanolind Oil and Gas Company? A. Yes, sir.

Q. And I believe that you stated that your work with Stanolind had to do primarily with determining the economics of development programs on oil leases, is that right? A. That was only one phase of it. I didn't intend to restrict the description of experience to economic analysis of the work I did. As a matter of fact, it was engineering work and we were always required to economically analyze the work of the work-over, in case it were a work-over, of the development

[5677]

program, if that were it, and of the pressure maintenance program, if that were it. It was a component part of all engineering work done in the production department of

Stanolind at that time, at least, to consider the economic aspects of the work, but the work in a major sense was engineering, which as again as characteristic of Stanolind involved geological support and investigation.

Q. The various matters that you worked on in your employment with Stanolind were related primarily to the advising of the company with reference to problems affected by geology? A. No, sir.. The geology and the economics were aspects or related aspects to engineering as the major activity and component in all such work.

Q. None of your work with Stanolind related to the operation of a gasoline plant, did it? A. No, sir, except in those cases where pressure maintenance was involved, and then only to the extent that it applied to the engineering aspects, that is to say, that does exclude any consideration of the operation as such of such plants.

Q. In other words, it was only to the extent that the operation of a gasoline plant and the revenues from it might affect the economics of contemplated repressuring projects that you were concerned? A. That is right.

Q. I believe you stated that you were employed by the Federal Power Commission in 1939 and have been so employed with

[5678]

the exception of a period of four years when you were in service in the navy? A. Yes, sir.

Q. I believe you also stated that you were in the gas certificate division, is that right? A. Yes, sir.

Q. What has been the character of your work with the

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Federal Power Commission since 1939? A. The character of the work has been the estimation of natural gas reserves, the collection of field and basic data relative thereto, the construction of exhibits and testimony thereon in connection with said reserves, the construction and presentation of deliverability exhibits.

Q. By deliverability, what do you mean there? A. The ability of gas wells to deliver gas. That aspect, of course, also includes the collection of basic data naturally. I think that can be implied in any of this. That brings us more or less up to the period of the war, after which for, I guess, about two years my work related to investigation of a great variety and types of exhibits presented before the Commission in dockets requesting certificate of public convenience and necessity for natural gas pipe lines.

Q. By that do you mean that you for the Commission analyzed exhibits that had been offered in connection with applications for certificates of public convenience and necessity,

[5679]

is that what you mean? A. Yes, sir. These exhibits varying in character from market exhibits to and including engineering exhibits of various kinds, pipe line design, operation.

Q. Does that bring it pretty well up to date? A. No, sir. I was about to say gas reserves and deliverability and that is true although it is true for a lesser extent than for the period which I am now about to mention, and that does bring us up to the current period which has covered the last two or three years, in which reserves and delivera-

bility have been the major, my major, activities, and the reason for that is organization of natural gas resources section for that purpose.

Q. Mr. Stevens, have you ever operated a gasoline plant? A. No, sir.

Q. Have you ever operated a gathering system? A. Well, I hesitate in an affirmative answer or a negative answer to your question because in the development of natural gas storage projects, we had in three instances of fields, that is, and several subinstances regarding those fields where gas was experimentally injected into the ground and was produced therefrom in the same manner as if they were normal producing fields, in which activities and activities involved in that testing and later in the operation of those storages when more completely repressured we have in those instances the exact duplication of the operation of a normal gas field, and in that

[5680]

operation there was certainly involved facilities which are referred to here as gathering system.

Q. Who were you working for at that time? A. Cities Service Gas Company.

Q. Did you have actual supervision over those activities? A. During those periods of test I did.

Q. You had supervision during the testing period? A. That is right, yes. That is to say, I don't wish to reflect any undue conveyance of authority in the operation of the Cities Service system, we selected the time when we wanted to do this work and did so in correlation with

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the pressure dispatching, but during that period that part of the system was subject to our plans and activities of testing. I do not wish to go beyond that.

Q. Did you ever design or supervise the construction of a gasoline plant, processing plant? A. No, sir, except in the limited sense that one does so during a course of petroleum engineering, not for the construction of such a plant in actuality in any given field.

Q. Have you ever had any experience in the purchase or sale of gas at the wells? A. Do I understand by your question that is have I made contract with producers?

Q. The purchase or sale of gas. A. No, sir, I have not, but I have examined hundreds of

[5681]

them in connection with my duties at the Commission.

Q. Have you ever made any contracts for the purchase or sale of residue gas from a gasoline plant? A. No, sir, the same answer applies.

Q. During the course of your experience have you ever for any concern for whom you have worked negotiated the purchase or sale of a gasoline plant? A. No, sir.

MR. McALLISTER: May I have that question read, please, the sale of a plant?

PRESIDING EXAMINER: Read the question, please.

(The question was read by the reporter.)

MR. McALLISTER: Mr. Examiner, I don't know if that is clear. Does that include the gathering system under Mr. Bunn's theory? I think the witness is entitled to know what he means by a gasoline plant under the theories that

have been advanced here until it is defined or the witness is permitted to define what he understands by gasoline plant.

PRESIDING EXAMINER: Well, he can do that.

THE WITNESS: Well, I understand a gasoline plant as that group of facilities within the compound which is a compound closely associated geographically and physically which is designed and erected and operated for the removal of gasoline.

BY MR. SPARKS:

Q. As you have defined it, go ahead and answer the

[5682]

question. A. I have not. In other words, the answer is no to your question.

[5683]

Q. Have you ever been inside a gasoline plant which is processing casing-head gas? A. Yes. In the Texas Panhandle Field, but I can't tell you which one it was. We passed one one day and stopped to go through it. I think it was a plant owned by the Panhandle or a plant which processed gas which went to the Panhandle Eastern Pipe Line Company, but I couldn't tell you which one it was.

MR. McALLISTER: Maybe it was the Sneed plant.

THE WITNESS: No.

BY MR. SPARKS:

Q. Did you understand the plant was processing casing-head gas? A. Oh, casing-head gas. I beg your pardon. I do not know. I was referring to the processing of the so-called dry gas.

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Q. Gas well gas? A. Yes, gas well gas. I think that plant was not a processing plant for removal of casing-head gas.

Q. In other words, as far as you can recollect, you have never been in a processing plant which was processing casing-head gas? A. Not as far as I can recall.

Q. And the only gasoline plant of any kind that you can recollect ever having been in is one plant in the Panhandle

[5684]

Field, is that right? A. I think that is true, too, yes, sir.

Q. How long ago was that? A. That was about 1940.

Q. You don't recollect— A. (Interrupting.) I'm sure it was 1940, because we were in that area in 1940.

Q. And you think that was a plant of Panhandle Eastern's in the Panhandle Field? A. I think it was, or a plant from which Panhandle Eastern obtained or took the gas. However, I'm not certain of that either. That is my impression, and, of course, I don't see really what difference that would make whether it was Panhandle or someone else.

* * *

[5691]

MELWOOD W. VAN SCOYOC

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

PRESIDING EXAMINER: Counsel for the respondent may cross-examine the witness.

Cross-Examination by Mr. Sparks

Q. Mr. Van Scoyoc, you testified yesterday, I believe, that 54 companies who were classified by the Commission as "A" and "B" companies and who made reports to the Federal Power Commission as Natural gas companies were producers of gas, did you not, from the wells that they owned? A. I did, sir.

Q. And that of those 54 companies, you testified that 17 produced gas in a seven-state area in the southwest which was composed of Texas, New Mexico, Arkansas, Louisiana, Mississippi, Oklahoma and Kansas, is that right? A. That is correct.

Q. You also testified that the 54 companies owned and operated some 30,162 gas wells, is that right? A. That is right.

[5692]

Q. As of what date were your figures on that— A. (Interrupting) That was reported as of December 31, 1949.

Q. How many of those 30,162 gas wells are owned by the 17 companies which produce gas in the seven-state southwest area? A. I don't have them added up, but I can give them to you by companies.

Q. If you will, just identify the company and the number of wells, but first let me ask you this question, will your answer include all the wells of those 17 companies or only those wells of the 17 companies which are located in the seven-state southwestern area? A. It will include only the wells of those companies which are located within the seven states. I can give them to you by states if

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you want them that way or a total for the company.

Q. Give them by states. A. Arkansas-Oklahoma Gas Company, 96 wells in Arkansas, 29 in Oklahoma.

Hope Producing Company, 39 wells in Louisiana.

Kansas-Colorado Gas Company, 4 wells in Kansas.

Southern Natural Gas Company, 26 wells in Louisiana.

Southern Union Gas Company, 4 wells in Texas, 5 wells in New Mexico.

Texas Gas Utilities Company, 3 wells in Texas.

Union Gas System, Inc., 78 wells in Kansas, 58 wells in

[5693]

Oklahoma.

Interstate Natural Gas Company, Inc. 233 wells in Louisiana.

Panhandle Eastern Pipe Line Company, 174 wells in Kansas, 32 wells in Oklahoma, and 69 wells in Texas.

Texoma Natural Gas Company, 231 wells in Texas.

Canadian River Gas Company, 202 wells in Texas.

Kansas-Nebraska Natural Gas Company, 18 wells in Texas.

El Paso Natural Gas Company, 24 wells in New Mexico.

Cities Service Gas Company, 6 wells in Kansas, 153 wells in Oklahoma, 145 wells in Texas.

Arkansas-Louisiana Gas Company, 14 wells in Arkansas, 57 wells in Louisiana, 84 wells in Texas.

Northern Natural Gas Company, 167 wells in Kansas, 36 wells in Texas.

Consolidated Gas Utilities Company, 4 wells in Kansas, 27 wells in Oklahoma, 53 wells in Texas.

That completes all of the gas wells for the 17 companies. There are several of those companies which also have oil wells.

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[5697]

Q. State, if you know, the number of producers who own and produce gas wells, gas from which is sold to one or more of the companies reporting to the Federal Power Commission as natural gas companies, but which producers do not themselves report to the Federal Power Commission as natural gas companies?

MR. McALLISTER: May I have that question read?

PRESIDING EXAMINER: Read the question.

(The question was read by the reporter.)

MR. McALLISTER: I just want to be sure—

THE WITNESS (interrupting): I don't understand the question. I wonder if I might have that read again.

(The question was read again by the reporter.)

MR. McALLISTER: Do you mean people like Skelly or Magnolia, is that what you mean, Mr. Sparks?

MR. SPARKS: Yes, and Phillips.

MR. McALLISTER: Phillips?

MR. SPARKS: And how many hundred thousand others there may be. I am just asking if he knows how many there are:

THE WITNESS: There were some figures compiled, I believe, about 1946 or '47 which were compiled from reports to the Federal Power Commission by the natural gas companies reporting to the Commission, showing the total number of producers and gatherers in the category

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which you named. I believe there were about 2,300 such producers of which about 600 were in the seven southwest states.

[5698]

BY MR. SPARKS:

Q. In that tabulation, if a gatherer purchased gas from other producers and gathered the gas and then sold it either before or after extracting the liquids to a company reporting to the Federal Power Commission as a natural gas company, would that count it as one gatherer and producer or in that tabulation did you count in all of the producers from whom the gatherer purchased? A. All that tabulation showed, as I recall it, was the names or the number of companies from which companies reporting to the Federal Power Commission purchased gas.

Q. Made direct purchases? A. And I don't think it would include people who might be selling to—well, take, for example, to make is specific, a company like American Gas Production Company, which might be selling gas to Phillips in the Texas-Hugoton field, and Phillips would then resell that gas to Michigan-Wisconsin Pipe Line Company. I don't believe it would include that category of companies because the reports of the Federal Power Commission would not ordinarily disclose that.

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[5709]

Q. The report shows, does it not, that for the year 1947 and for all natural gas companies in the country there was purchased from independent producers and gatherers

57.94 per cent of the gas supply of all such natural gas companies? A. That is correct.

Q. And for the seven-state area of Arkansas, Louisiana, Kansas, Mississippi, New Mexico, Oklahoma and Texas, for the year 1947, that purchased from independent—it says independents, does that mean independent producers and gatherers? A. I believe that would mean the same thing.

Q. That purchase from independent producers and gatherers was 61.76 per cent of the total supply of said companies? A. That is correct.

Q. Then you also prepared an estimate of the percentage of the total supply of natural gas companies reporting as such to the Federal Power Commission which would be produced by said companies and affiliates and which would be purchased from independent producers for the year 1952, taking into account no pending certificate applications before the Commission with the exception of that of Tennessee Gas Transmission Company, in Docket G-962, isn't that right? A. You said you prepared. I didn't personally prepare the

[5710]

data, but it was prepared under my supervision and direction and I believe the figures are reasonable.

Q. And that estimate for all companies reporting as natural gas companies to the Federal Power Commission for the year 1952 reflects that 29.64 per cent of their total gas supply will be produced by said pipe line companies and their affiliates, is that right? A. That was the esti-

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mate that was made at the time this was prepared in '47, I believe, or '48.

Q. And— A. (Interrupting) Based on applications which had been filed by natural gas companies covering projects and the purchase gas contracts which were a part of those applications, which applications had been granted with the single exception of the Tennessee application to which you referred, which was pending at that particular time and has subsequently been granted.

Q. And with regard to all companies reporting as natural gas companies the report reflects that 70.36 per cent of their total supply would be purchased from independent producers? A. That was the estimate, yes, sir.

Q. And with regard to the 22 interstate pipeline companies reporting as natural gas companies to the Commission in the seven-state area we have been talking about, the estimate was that 76.75 per cent of their total requirements would be purchased from independent producers, is that right?

[5711]

A. Yes, sir, that was the estimate.

* * *

[5726]

Q. I just want to know whether you are sufficiently familiar with the exhibit to answer this question. In the event Phillips Petroleum Company should be held to be a natural gas company and the sales made by Phillips Petroleum Company to any Interstate Pipe Line Companies, the delivery of which occurs in the counties of

Moore, Hartley, Sherman, Hansford, Texas, and Texas County, Oklahoma—

MR. SPARKS: I'd like to have the question read to that point.

PRESIDING EXAMINER: Read the question.

(Question read.)

BY MR. SPARKS:

Q. —are subject to rate determinations by the Federal Power Commission, and in the event that any of those sales prices as are contained in the sales contracts are ordered reduced by the Federal Power Commission, is it not a fact that royalty owners who receive royalties under this form of gas royalty agreement would be affected by such reductions in price and their royalties payable to them be reduced?

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[5727]

PRESIDING EXAMINER: Do you understand it, Mr. Van Scoyoc?

THE WITNESS: Yes, I understand it. The answer would be no.

• • •

[5730]

Q. All right, how do you determine, Mr. Van Scoyoc, that any reduction in the sales price which might be ordered by the Federal Power Commission of any sales of Phillips Petroleum Company in this five county area, would not have any effect on the royalties to be received by the royalty owners under this agreement?

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THE WITNESS: Well, the gas royalty agreement to which you referred, Exhibit 109, is a contract between Phillips Petroleum Company and the royalty owner, and it is subject to whatever agreement there may be between the parties, subject to modification and thousands of them have been modified as so testified in this proceeding, to change the basis of the royalty payment, and the mere fact that the Federal Power Commission might fix a price below the so-called weighted

[5731]

average price per Mcf received by lessee from all sales of gas, which is in Moore, Hartley, Sherman and Hansford Counties, Texas, and Texas County, Oklahoma, would have no bearing on it at all.

BY MR. SPARKS:

Q. It wouldn't have any bearing or relationship on this contract at all, you don't think so. A. No, sir. Phillips has modified all kinds of royalty payments. We fixed the rates of Panhandle, Cities Service, Northern Natural and as far as I know no royalty payment was affected by it.

Q. You don't know whether they had any such agreements as this, do you? A. I know they had agreements which are similar to this, yes, sir.

Q. You know they weren't similar to this, Mr. Van Scoyoc.

MR. McALLISTER: Mr. Examiner—

MR. PERDUE (interrupting): Here we go on arguing with the witness again.

PRESIDING EXAMINER: Yes, we have a lot of it.

Go ahead.

BY MR. SPARKS:

Q. You know those provisions provide for a flat rate in cents per thousand, don't you, Mr. Van Scoyoc?

[5732]

A. I think most of them did, yes sir.

Q. You know this agreement does— A. (Interrupting.) As a flat minimum. There are usually three types of royalty contracts generally. One is a flat rate per Mcf, some are a flat amount so much a year and some of them are based on some kind of a price in the field, weighted average or otherwise and Phillips has renegotiated a lot of its contracts probably from flat prices to weighted average price.

Q. Where have you reached the conclusion that Phillips has renegotiated a lot of its royalty contracts from flat rate to weighted average price, on what basis? A. (Interrupting.) I believe that was the testimony of Mr. Bunn, as I recall it.

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[5733]

MR. SPARKS: I'll change the question to the extent that the leases of Phillips Petroleum Company contain provisions for payment under the provisions shown in Exhibits 108 and 108-A, do you find any flat rate royalty provisions on gas?

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[5735]

THE WITNESS: Well, on Exhibit 108, which apparently was revised in 1943, I don't know whether it goes

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back of that time or not, but paragraph 3, sub B, "royalty on gas, including casing-head gas or other gaseous substances produced from said lands and sold—I don't know whether that is on or at the wells—the royalties shall be 1/8 of the amount realized from such sales". No, wait a minute, I skipped a line.

BY MR. SPARKS:

Q. That is not a flat rate, is it?

MR. McALLISTER: Let the witness answer, if you will, please. You argue on the question, let him answer the question without arguing with him on his answering.

[5736]

THE WITNESS: There is too much fine print. It should be "or used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 1/8 of the gas sold or used provided that on gas sold at the well the royalty shall be 1/8 of the amount realized from such sale" is that what you refer to?

BY MR. SPARKS:

Q. That is the royalty provision, yes. A. No, sir, as I see it, that would not be affected if the Commission were to fix the rates for the sale of gas by Phillips Petroleum Company to Panhandle Eastern at the Sneed plant or at the Hansford plant or to Michigan-Wisconsin at the Sherman plant or to El Paso Natural Gas Company at the Dumas Plant.

Q. My question to you was whether you found any flat rates provided for in that royalty provision? A. No, there is no flat rate in this particular contract.

Q. And you don't know of any contract, royalty contract, that Phillips has that has a flat rate, do you?

MR. McALLISTER: I object, Mr. Examiner. It is arguing with the witness.

PRESIDING EXAMINER: The objection is overruled.

THE WITNESS: At the present time I would have to examine all the royalty contracts to see whether that is a fact.

BY MR. SPARKS:

Q. Then you didn't have any basis for your statement—

[5737]

A. (Interrupting) Well, my basis was the testimony—

Q. (Interrupting) That Phillips had modified a great many of the flat rate contracts to some other basis? A. My basis was listening to the testimony of Mr. Bunn that all of those old contracts had been renegotiated or most of them.

Q. It is a fact, is it not, that unless agreements executed on this form by royalty owners were modified payments to such royalty owners pursuant to the provisions of contracts on this form. Exhibit 109, would be affected in the event of a reduction of the prices Phillips Petroleum Company would be permitted to receive from the sales of gas made to Michigan-Wisconsin Pipe Line Company at the Sherman plant, Panhandle Eastern Pipe Line Company at the Hansford plant and Sneed plant and El Paso Natural Gas Company at the Duman plant?

MR. McALLISTER: I object, Mr. Examiner. The witness has answered the question. Counsel is merely con-

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tinuing to argue with the witness.

MR. TORKELSON: We object to it on the ground it requires the witness to give a legal conclusion and further that the question does not specify the various assumptions on which it is based and is defective in form.

PRESIDING EXAMINER: The objection is overruled.

[5738]

THE WITNESS: The payment under this contract is based on the, other than the minimum, is based on the weighted average price per Mcf received by lessee from all sales of gas delivered within the area comprising Hartley, Sherman and Hansford Counties, Texas, and Texas County, Oklahoma.

BY MR. SPARKS:

Q. And Moore County, Texas. I think you left it out. A. Moore, yes, exceeds four cents during any calendar month. The royalty to the total volume of sweet gas so produced and so sold or used during the succeeding month shall be an amount equal to such weighted average price multiplied by 1/8th of the total volume in Mcf of such sweet gas and the royalty on the total amount of sour gas so produced and so sold or used during each succeeding month shall be an amount equal to such weighted average price less .4466 cents multiplied by 1/8th of the total volume in Mcf of such sour gas. I note from this particular provision which I read that this includes all sales and I assume from that that all sales made by Phillips Petroleum Company to all markets for all purposes in the Moore, Hartley, Sherman and Hansford County, Texas, and Texas County,

Oklahoma during a month are combined in some manner to ascertain a weighted average price, and the royalty payment to those particular royalty

[5739]

owners who have agreements under Exhibit 109 are based on that basis. I don't know whether it is weighted on an Mcf basis, but I assume that is the case.

Q. It is so specified if you search clear through the agreement. Just assume that. You wouldn't weight it on any other basis, would you? A. No, I think that would be a logical basis for weighting, if you were to come to a weighted average price. To whatever weight the sales by Phillips to Michigan-Wisconsin at the Sherman plant, Panhandle at the Hansford plant, Panhandle at the Sneed plant, and El Paso at the Dumas plant bore to the total sales of Phillips in that area the payment which Phillips is obligated to make under the agreement would be affected unless the agreement were modified. Now, to the extent of that modification—I don't mean modification—the extent to which the payment to a royalty owner would be affected by fixing, by the Commission fixing, the sales price, at any one or for any of those sales at a price less than which the gas is being sold at the present time, of course, depends on the weighting and the changes in the price, if any.

* * *

[5741]

Redirect Examination by Mr. McAllister

Q. Mr. Van Scoyoc, on cross-examination by Mr.

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Sparks, reference was made to some 2,300 so-called independent producers, as shown by a report of the Federal Power Commission to a committee of Congress on the percentage of gas which those 2,300 independent producers supplied to purchasers who were natural gas companies, is that right? A. That is right.

Q. Now, I believe that report also shows the 35 largest so-called independent producers? A. It does.

Q. What percentage of the total is supplied by the 35 so-called independent producers? I mean of the total supplied by 2,300 so-called independent producers, what percentage is supplied by the 35 largest independent producers as they are called?

[5746]

A. Approximately 72 per cent.

BY MR. McALLISTER:

Q. And of those 35 so-called independent producers who are the largest, what company stands No. 1 in size? A. Based on the volumes of sales for the seven-state area, in the year 1947, Phillips Petroleum Company is the largest in point of sales to interstate pipe lines.

Q. And on the basis of estimates for '52, which is the largest? A. Phillips Petroleum Company.

Q. Mr. Van Scoyoc, it is a fact, is it not, that El Paso Natural Gas Company gathers and processes casing-head gas in the Permian Basin? A. Yes, sir.

MR. SPARKS: I didn't hear the question.

PRESIDING EXAMINER: Read the question.

MR. McALLISTER: It is a fact that El Paso gathers

and processes casing-head gas in the Permian Basin.

BY MR. McALLISTER:

Q. Could you give us the name of the plants where that processing takes place? A. Processing takes place in Jal No. 1 plant in New Mexico and Jal No. 2 plant in New Mexico.

Q. What is the basis of that information? A. The report of El Paso to the Federal Power Commission

[5747]

and exhibits in this proceeding, 10-A and amendment thereto of 10-B and likewise I believe Exhibit 86, which shows the processing plants in the Permian Basin.

* * *

[5756]

MR. McALLISTER: I ask that there be incorporated in the record by reference to the files of the Commission the testimony of Mr. Don Emery, vice-president and general counsel of Phillips Petroleum Company given in Docket No. G-178 before a proceeding held by the Federal Power Commission in the State of Wisconsin, City of Madison, State Capitol, second floor, on Thursday, October 17, 1940, before Examiner Ewing G. Simpson, and I offer the testimony of Mr. Emery as contained on page 87, beginning at line 13 to and including page 90, line 12; pages 124, line 19 to and including page 128, line 8; page 214, beginning at line 19, to and including page 219, line 17; page 223, line 10, to and including page 224, line 8.

MR. SPARKS: 8?

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MR. McALLISTER: 8. Also the testimony of Stanley Learned—

PRESIDING EXAMINER (interrupting): Well, the testimony of Mr. Emery will be identified for the purposes of this record as

[5757]

Item M by reference.

* * *

MR. McALLISTER: I wanted to be accommodating and I'll be glad to do it. The testimony of Mr. Stanley Learned begins on page 772 at line 2, and the part which I ask be incorporated by reference includes that testimony from the point I have specified to and including line 160 on page 779.

PRESIDING EXAMINER: The testimony of Mr. Stanley Learned will be identified for the purposes of this record as Item N by reference. As I understand it, that is in the same proceeding, is it?

MR. TORKELSON: Who is Mr. Stanley Learned?

MR. McALLISTER: He testified at that time that he was chief engineer of the Phillips Petroleum Company, and that he had charge of all construction work, including natural gas field lines, transmission lines, plants, oil lines, I mean crude oil,

[5758]

and gasoline lines and what-not.

* * *

[5759]

MR. McALLISTER: It is in rebuttal of the proposition that Phillips Petroleum Company never had anything that was called by the name of a transmission line, that they only had gathering lines, as stated by Mr. Bunn, that they never had anything since he was with the company back in 1921, and Mr. Don Emery, testifying before the Federal Power Commission, and I'm going to read one paragraph as better stating what the import of his testimony is than I could possibly state it:

"The construction of gas transmission lines ranging from 15 to 50 miles in length is just ordinary course all the time. I will say that that has occurred and they have been laying and taking up lines of that size for the last 15 years in that department, and then that comprises transmission lines of several kinds. It is not quite correct to describe it just as gathering lines from wells, for instance, referring to Exhibit 7, part 1, there is a 50-mile transmission line just constructed within the last four years from a point in Moore County, Texas, to a point in Hutchinson County, Texas. Well, there are two gas transmission lines extended there and those transmission lines transmit gas after gathering in the field anywhere for a distance of maybe 30 feet to five miles" and those statements of that kind showing what he had to say regarding the lines which Phillips had in the fields in those counties, which is the same fields and counties

[5760]

we have here under consideration with respect to the counties and fields where gas produced is assembled, processed

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and sold to the major pipe lines which we have under consideration. It is documentary evidence in direct contravention of what Mr. Bunn said, and it is offered for that purpose.

Mr. Learned, who is chief engineer—you know, Mr. Don Emery was a lawyer, but he qualifies himself very thoroughly and I have included all his qualifications as he stated them under oath in this proceeding before the Federal Power Commission, but he had with him Mr. Stanley Learned the chief engineer of the company who backed him up, and it is for that reason that the testimony of Mr. Learned is offered. I want to point to one part of that. He says "we have built in excess of 1,100 miles of crude oil pipe lines, ranging generally in size in both 6 and 8 inch, some of it larger, some of it smaller, but the bulk of it in those sizes and we have built in excess of 4,000 miles of gas lines. Do you mean natural gas pipe lines. Natural gas pipe lines, they 'vary in size from 24 and 26-inch down.' This question, 'are they used both for gathering and transmission?' Answer: 'That is right.'"

* * *

[5773]

MR. TORKELSON: Mr. Examiner, the State of Wisconsin and the Public Service Commission of Wisconsin adopt as its exhibits Exhibits marked 3 to 7, inclusive, and we offer them in evidence.

MR. SPARKS: Those have been excluded, have they not? I mean as offered by the staff.

PRESIDING EXAMINER: Yes.

MR. SPARKS: I make the same objections to the exhibits that were made at the time they were offered by the staff.

PRESIDING EXAMINER: The objections to Exhibits 3 to 7, inclusive, are sustained.

MR. TORKELSON: The State of Wisconsin and the Public Service Commission of Wisconsin request that the exhibits stand in the record as and for our offer of proof under the rule.

PRESIDING EXAMINER: They will be so considered.

MR. TORKELSON: The state and the Wisconsin Commission also move that there be incorporated into the record by reference Exhibit 53. I misspoke there. We desire to offer

[5774]

into evidence Exhibit 53 and have incorporated into the record by reference the material already identified as an Item E. The latter is certain testimony of Ralph E. Davis in the matter before the Federal Power Commission in the Michigan-Wisconsin Pipe Line Company and Michigan Consolidated Gas Company, Docket G-1146.

PRESIDING EXAMINER: 1146, is it?

MR. TORKELSON: G-1146.

PRESIDING EXAMINER: 1156, isn't it?

MR. TORKELSON: Is it 56? Then I have the wrong number here.

PRESIDING EXAMINER: I have a note here. My note shows 1156.

MR. TORKELSON: That is right.

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MR. SPARKS: Is this the same—

MR. TORKELSON: Just let me finish. It is the same, yes. The pages from the record in Docket G-1156 which we desire to have incorporated into this record and which already has been identified as Item E in this record appear at Page 3994 of Volume 29 of the record in this instant proceeding. This, again, is material which has been offered by the staff, but we desire to offer it on behalf of the State of Wisconsin and the Public Service Commission of Wisconsin.

MR. SPARKS: Offered and excluded, was it not?

MR. TORKELSON: Yes.

[5775]

MR. SPARKS: Rather than restating my objections, I make the same objections to Exhibits 53 and Item E by reference which were made at the time of the offer by the staff.

PRESIDING EXAMINER: The objection to Exhibit No. 53 as now offered by Wisconsin is sustained.

The objection to Item E by reference as now offered by Wisconsin is also sustained.

MR. TORKELSON: May the record show that we make an offer of proof and request that the document marked as Exhibit 53 stand in the record as and for our offer of proof and that the material incorporated or referred to as Item E be placed in the record as and for our offer of proof?

PRESIDING EXAMINER: Yes, those items will be treated as an offer of proof on behalf of Wisconsin.

MR. TORKELSON: In the past we have, in making objections and making offers of evidence, used the term "we offer" or "we object", and I wish the record to show that whenever that term is used, the term "we" refers both to the State of Wisconsin and the Public Service Commission of Wisconsin.

PRESIDING EXAMINER: Yes, and the record should also show that the ruling with respect to those motions, objections and so forth also is applicable to both of those parties.

MR. TORKELSON: Yes, sir.

[5776]

MR. McALLISTER: It is true, is it not, that during all of this hearing the State of Wisconsin and the Public Service Commission of Wisconsin have been represented by the same counsel?

MR. TORKELSON: That is correct.

MR. SPARKS: What was the question?

PRESIDING EXAMINER: Read the question.

MR. McALLISTER: They were represented by the same counsel, the State of Wisconsin and the Wisconsin Public Service Commission. I mean I merely make that statement to be sure that where "we" was used it was by an individual who was here representing both of them. If I use that term it doesn't mean I am speaking for—

MR. SPARKS (interrupting): I am willing to concede if the counsel uses the word "I", it applies to both of them.

MR. McALLISTER: That is, counsel representing the two parties.

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MR. SPARKS: That is right.

MR. McALLISTER: I am willing to agree to that.

MR. TORKELSON: That is all I have.

* * *

[5788]

PRESIDING EXAMINER:

* * *

The objection to Items M and N are overruled, and those

[5789]

items are received in evidence by reference to the files of the Commission.

* * *

[5795]

MR. McALLISTER: We have one other matter, Mr. Examiner, that you brought up this morning, and that was respect to the matter of the City of Detroit, and I'm only undertaking now to work out some solution because I have been requested to do so by the Examiner.

There is included with the letter of Mr. Lee addressed to the Examiner under date of May 16, 1951, a tabulation which shows the volumes of sales by Michigan Consolidated Gas Company, Detroit District, to the City of Detroit. That statement shows the Mcf as billed in 1950 by some twenty departments of the City of Detroit and the statement only shows sales in Mcf. I don't have such copies, but I would like to have it copied in the record at this time, if you have no objection, Mr. Sparks.

PRESIDING EXAMINER: Is there any objection?
MR. SPARKS: I have no objection.
PRESIDING EXAMINER: That will be done.

MICHIGAN CONSOLIDATED GAS COMPANY

Detroit District

City of Detroit Accounts.

Consumption in MCF as Billed 1950

Department	MCF
Board of Education	21591.6
Fire Department	5822.0

[5796]

Public Library	5335.4
Corporation Counsel	820.7
Police Department	6514.2
Public Works	3379.9
D. S. R.	3206.1
Water Board	1557.4
Parks and Recreation	1088.9
Public Welfare Department	2036.3
Department of Health	3162.5
Election Commission	413.0
Lighting Commission	25.8

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Historical Commission	865.6	
Art Institute	118.1	
Weights and Measures	454.6	
Memorial Hall Commission	5.7	
Hospitals	1230.0	
Safety Engineering	25.1	
Traffic Engineering	731.8	
Total		58,384.7

MR. McALLISTER: Mr. Lee also sent four bills, I presume, to show that the City of Detroit paid its bills, and it shows that—

PRESIDING EXAMINER (interrupting): One of them required some correction, too, didn't it?

[5797]

MR. McALLISTER: I noted that on there. I suppose it was an error in metering, you know. At least, they seem to have adjusted their differences.

[5798]

One bill is a bill paid in April, as near as I can figure out, for the month of March 1951. It is a bill for which it appears that the police department was responsible at their various locations and it totals for that billing period $756.80.

For the same billing period there is one from the water department for $157.22.

For the same billing period there was a payment of $272.63 for the fire commission fund. That is the one that was corrected.

And then there is a third one from the public health, $99.21 for the same billing period.

The total of those bills was $1,286.86.

MR. SPARKS: I didn't hear you state what the billing period was there.

MR. McALLISTER: The March billing period, as near as I can figure it out. They were paid in April but it was apparently for—I don't know the beginning or the end of the billing period, but they were all paid in April 1951, and I am merely assuming that they were for the current period immediately before then.

MR. SPARKS: April 1951?

MR. McALLISTER: Yes.

MR. SPARKS: Then they don't relate at all to the period covered by the letter, then.

MR. McALLISTER: No. At least they paid their bills in 1951 if they didn't in 1950.

I think Mr. Sparks is willing to stipulate that the gas sold

[5799]

and distributed by the Michigan Consolidated in Detroit is supplied in substantial part by Michigan-Wisconsin Pipe Line Company. There are a number of statements here that undertake—

PRESIDING EXAMINER (interrupting): Will counsel stipulate as to that?

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MR. SPARKS: To the statement made by Mr. McAllister, yes.

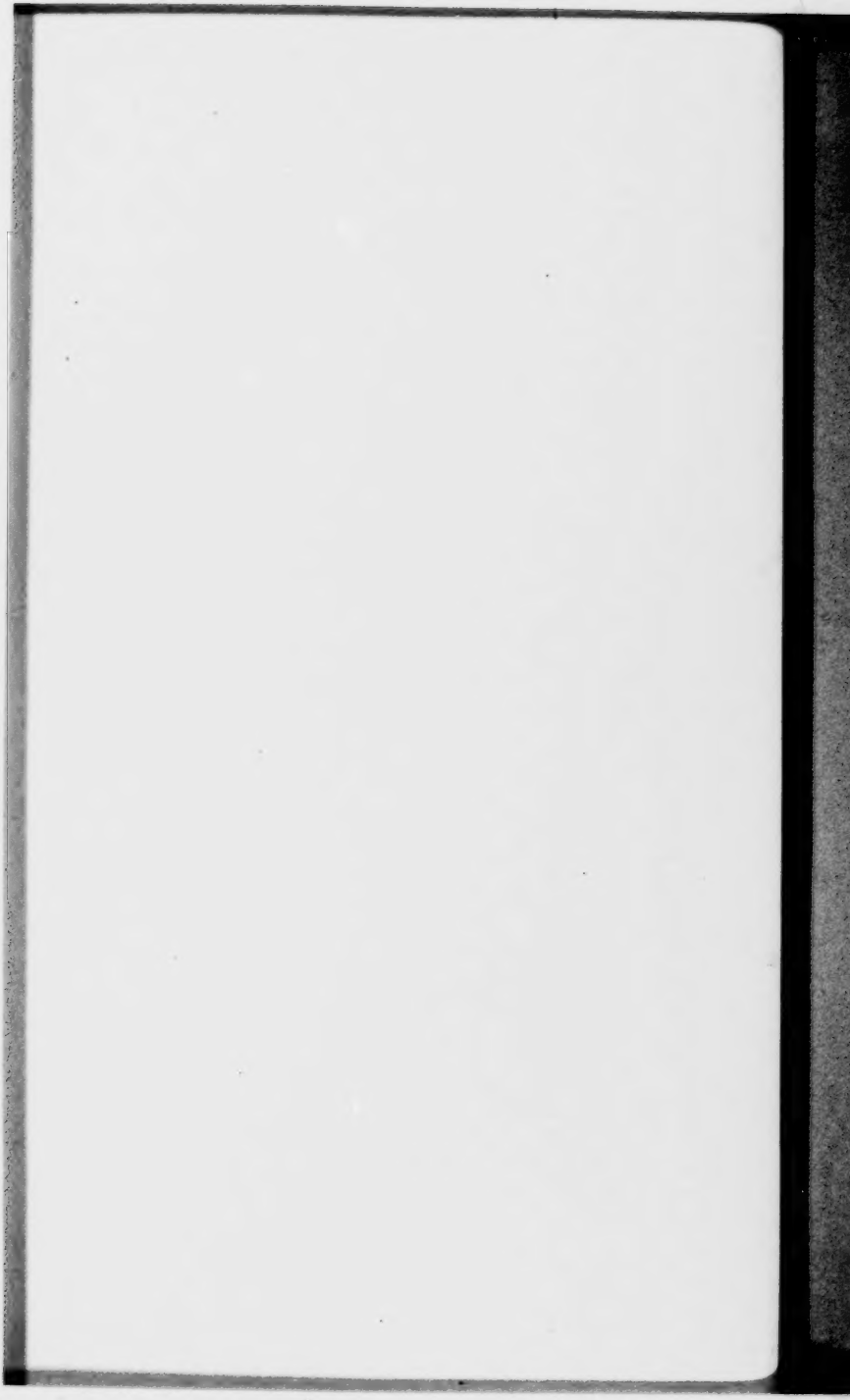
PRESIDING EXAMINER: Yes. That is, that a substantial—

MR. SPARKS (interrupting): I don't see any necessity for going into all the detailed volumetric figures that are included in that statement.

PRESIDING EXAMINER: No, I don't think so either. I think the purpose is to show that the City of Detroit has a substantial interest in the outcome of any rate proceeding.

MR. SPARKS: I don't know how substantial it is, but at any rate it shows they do receive or buy some gas from this distributing company.

• • •



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[illegible]

No. [illegible]

[illegible] AND PUBLIC SERVICE COMMISSION
OF WISCONSIN, Petitioner

versus

FEDERAL POWER COMMISSION, [illegible]
PHILLIPS PETROLEUM COMPANY ET AL., [illegible]

No. [illegible]

CITY OF DETROIT, MICHIGAN, [illegible]

versus

FEDERAL POWER COMMISSION, [illegible]
PHILLIPS PETROLEUM COMPANY ET AL., [illegible]

No. [illegible]

CITY OF KANSAS CITY, MISSOURI, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
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No. [illegible]

CITY OF MILWAUKEE, WISCONSIN, a Municipal Corporation, Petitioner,

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PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. [illegible]

COUNTY OF WAYNE, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
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Review of An Order of the Federal Power Commission

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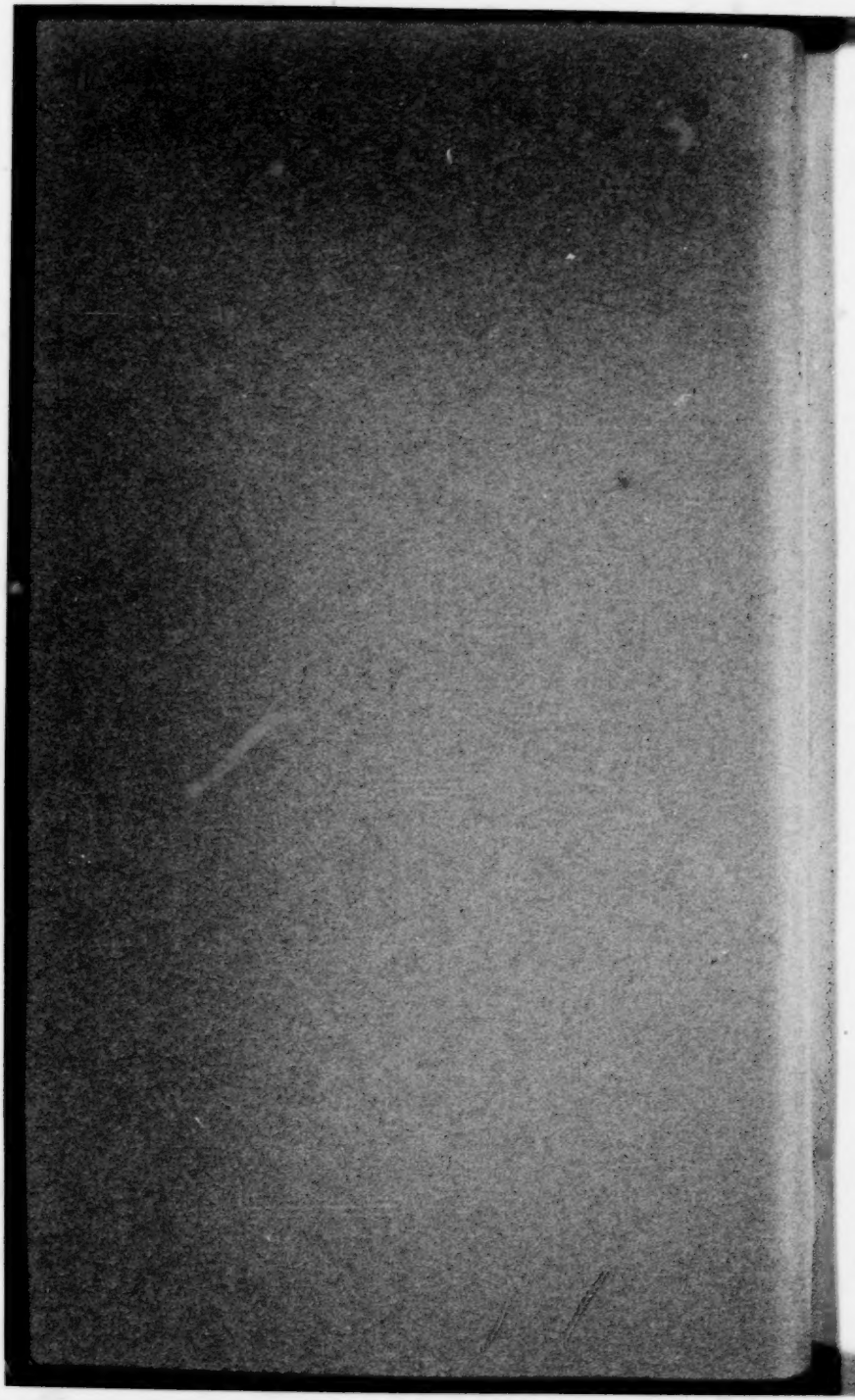

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Volume III

JOINT APPENDIX

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VOLUME III JOINT APPENDIX

United States Court of Appeals

FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11247

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11241

CITY OF DETROIT, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11242

CITY OF KANSAS CITY, MISSOURI, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11245

CITY OF MILWAUKEE, WISCONSIN, a Municipal Corporation, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11252

COUNTY OF WAYNE, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

Review of An Order of the Federal Power Commission

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Exhibits Nos. 1-59

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[6226]

Exhibit No. 1

[Note: Title page, cover and map omitted]

PRINCIPAL CITIES AND GAS DISTRIBUTING UTILITIES SUPPLIED BY INTERSTATE PIPE LINE SYSTEMS SHOWN ON ATTACHED MAP

El Paso Natural Gas Company System

City	Gas Distributing Utility
Berkeley, California	Pacific Gas and Electric Company
El Paso, Texas	El Paso Natural Gas Company
Fresno, California	Pacific Gas and Electric Company
Glendale, California	Southern California Gas Company
Los Angeles, California	Southern California Gas Company and Southern Counties Gas Company of California
Oakland, California	Pacific Gas and Electric Company
Pasadena, California	Southern California Gas Company
Phoenix, Arizona	Central Arizona Light and Power Company
San Bernardino, California	Southern California Gas Company
San Diego, California	San Diego Gas and Electric Company
San Francisco, California	Pacific Gas and Electric Company
Tucson, Arizona	Tucson Gas, Electric Light and Power Company, The

[6227]

Michigan Wisconsin Pipe Line Company System

City	Gas Distributing Utility
Detroit, Michigan	Michigan Consolidated Gas Company
Grand Rapids, Michigan	Michigan Consolidated Gas Company
Green Bay, Wisconsin	Wisconsin Public Service Company
Madison, Wisconsin	Madison Gas and Electric Company
Milwaukee, Wisconsin	Milwaukee Gas Light Company
Muskegon, Michigan	Michigan Consolidated Gas Company
Racine, Wisconsin	Wisconsin Gas and Electric Company

Northern Natural Gas Company

City	Gas Distributing Utility
Council Bluffs, Iowa	Council Bluffs Gas Company
Des Moines, Iowa	Iowa Power and Light Company
Lincoln, Nebraska	Central Electric and Gas Company
Mason City, Iowa	Peoples' Gas and Electric Company
Minneapolis, Minnesota	Minneapolis Gas Light Company
Omaha, Nebraska	Omaha Metropolitan Utilities District
St. Paul, Minnesota	Northern States Power Company
Sioux City, Iowa	Sioux City Gas and Electric Company

[6228]

Panhandle Eastern Pipe Line Company System

City	Gas Distributing Utility
Akron, Ohio	East Ohio Gas Company, The
Anderson, Indiana	Central Indiana Gas Company
Battle Creek, Michigan	Battle Creek Gas Company
Bay City, Michigan	Consumers Power Company
Cleveland, Ohio	East Ohio Gas Company, The
Dearborn, Michigan	Michigan Consolidated Gas Company
Decatur, Illinois	Illinois Power Company
Detroit, Michigan	Michigan Consolidated Gas Company
Flint, Michigan	Consumers Power Company
Fort Wayne, Indiana	Northern Indiana Public Service Co.
Hamtramck, Michigan	Michigan Consolidated Gas Company
Highland Park, Michigan	Michigan Consolidated Gas Company
Jackson, Michigan	Consumers Power Company
Kalamazoo, Michigan	Consumers Power Company
Lansing, Michigan	Consumers Power Company
Muncie, Indiana	Central Indiana Gas Company
Peoria, Illinois	Central Illinois Light Company
Pontiac, Michigan	Consumers Power Company
Quincy, Illinois	Central Illinois Public Service Co.
Saginaw, Michigan	Consumers Power Company
Terre Haute, Indiana	Terre Haute Gas Corporation (through Indiana Gas and Chemical Company)
Toledo, Ohio	Ohio Fuel Gas Company, The

[6229]

Exhibit No. 1-A

Map bearing legend "Certain Interstate Gas Pipeline Systems Supplied by Phillips Petroleum Company."

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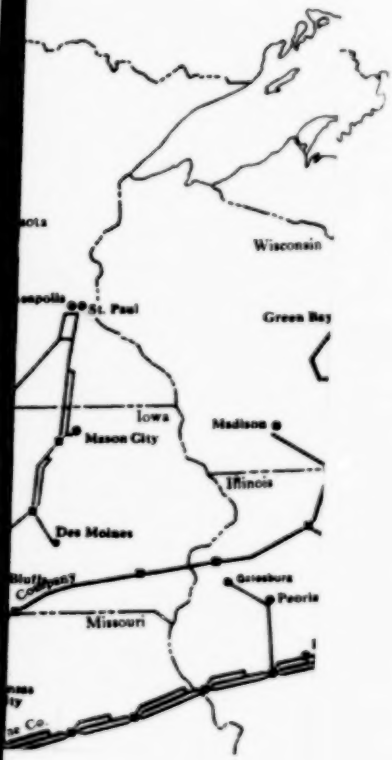

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[6232]

Exhibit No. 2

[*Note: Cover and title page omitted*]

Diagram of pipeline facilities used to supply natural gas to El Paso Natural Gas Company at Dumas Plant, Northern Natural Gas Company and Independent Natural Gas Company at Gray Plant and Skellytown, Panhandle Eastern Pipe Line Company at Sneed and Hansford Plants, Michigan Wisconsin Pipe Line Company at Sherman Plant.

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DIAGRAM
OF
PIPE LINE FACILITIES USED TO SUPPLY NATURAL GAS
TO
EL PASO NATURAL GAS COMPANY AT DUMAS PLANT
NORTHERN NATURAL GAS COMPANY AND INDEPENDENT NATURAL GAS COMPANY AT GRAY PLANT AND SKELLYTOWN
PANHANDLE EASTERN PIPE LINE COMPANY AT SNEED PLANT AND AT HANSFORD PLANT
MICHIGAN WISCONSIN PIPE LINE COMPANY AT SHERMAN PLA

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[6233]

[6234]

Exhibit No. 3

[*Note: This exhibit was rejected by the Examiner at record 5519 and not received in evidence. An offer of proof was made on page 5763 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.*]

PHILLIPS PETROLEUM COMPANY AND SUBSIDIARY COMPANIES CONSOLIDATED BALANCE SHEETS PER BOOKS DECEMBER 31, 1938 TO 1950

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1945	1946	1947	1948	1949	1950
27,390,203.79	$ 26,138,193.08	$ 38,559,001.87	$ 29,017,921.53	$ 51,587,326.35	$ 50,029,58
2,417,729.52	385,049.66	3,336,413.50	789,179.10	1,450,317.09	12,534,01
15,838,358.21	18,365,899.00	29,175,010.72	43,195,968.91	38,188,561.88	48,009,10
17,899,219.13	21,499,320.80	30,062,756.29	52,688,363.78	46,576,998.82	48,251,31
9,058,352.90	11,125,399.27	15,099,806.40	25,657,275.08	17,891,026.51	18,054,74
6,979,928.74	3,333,131.68	3,100,928.05	9,545,589.07	4,937,846.66	4,957,27
11,679,237.41	11,205,845.21	23,005,656.31	14,547,513.57	11,915,299.63	12,023,68
31,720,347.86	34,151,268.09	37,407,627.95	44,263,491.20	45,026,146.92	60,130,66
11,492,394.90	12,111,981.78	12,310,459.46	13,848,954.59	14,904,072.85	16,301,89
20,227,952.96	22,039,286.31	25,097,168.49	30,414,536.61	30,122,074.07	43,828,76
463,885,144.83	484,392,921.92	556,609,069.75	671,870,288.01	726,079,053.51	775,637,84
261,414,451.56	269,872,121.57	290,312,976.09	310,190,580.78	326,262,729.37	353,707,66
202,470,693.27	214,520,800.35	266,296,093.66	361,679,707.23	399,816,324.14	421,930,17
222,698,646.23	236,560,086.66	291,393,262.15	392,091,243.84	429,938,398.21	465,758,94
			491,858.68		
			2,984,246.89		
222,698,646.23	236,560,086.66	291,393,262.15	395,573,349.41	429,938,398.21	465,758,945
3,059,886.37	3,446,214.44	5,556,475.96	8,258,368.09	4,742,731.93	7,612,88
317,021,562.30	$332,059,139.80	$439,289,341.25	$579,273,528.54	$607,228,507.08	$667,231,55

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[6235]

Exhibit No. 4

[Note: This exhibit was rejected by the Examiner at record 5519 and not received in evidence. An offer of proof was made on page 5763 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.]

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1945	1946	1947	1948	1949	1950
212,458,510.60	$220,074,897.64	$298,309,750.89	$487,165,286.96	$486,442,214.70	$532,957,618
15,409,825.75	1,798,375.25	4,462,299.57	6,558,724.43	3,405,396.84	1,105,935
227,868,336.35	221,873,272.89	302,772,050.46	493,724,011.39	489,847,611.54	534,063,553
73,958,538.27	83,625,473.75	111,830,229.27	219,394,934.02	239,514,180.52	256,372,768
65,491,050.48	70,560,298.49	85,937,693.35	120,351,501.41	129,971,284.55	132,208,968
5,531,755.16	5,169,211.48	7,239,769.20	10,591,186.59	10,421,980.19	11,795,227
6,234,801.53	1,382,303.18	5,596,144.75	819,917.24	.....	.....
351,219,145.44	160,737,286.90	210,603,836.57	351,157,539.26	379,907,445.26	400,376,963
76,649,190.91	61,135,985.99	92,168,213.89	142,566,472.13	109,940,166.28	133,686,590
1,549,736.03	1,307,214.10	1,550,510.17	1,851,198.38	3,077,766.89	3,463,153
75,099,454.88	59,828,771.89	90,617,703.72	140,715,273.75	106,862,399.39	130,223,437
15,254,607.24	11,983,740.45	12,686,876.52	15,928,879.16	19,160,965.73	22,568,651
3,829,508.07	3,142,113.27	3,689,537.98	4,660,365.49	4,846,821.95	5,017,465
9,277,942.63	7,929,674.12	8,952,563.34	9,565,133.85	11,703,407.81	10,401,747
4,336,475.87	474,848.30	986,193.40	949,282.84	1,152,045.44	3,304,891
10,403,887.74	5,149,712.32	4,929,349.78	8,885,564.15	6,233,424.52	7,115,881
4,314,424.16	2,262,432.82	3,396,639.87	6,318,207.10	4,630,328.95	4,066,238
47,416,845.71	30,942,521.28	34,641,460.89	46,307,432.59	47,726,994.40	52,474,873
27,682,609.17	28,886,250.61	55,976,242.83	94,407,841.16	59,135,404.99	77,748,564
5,111,100.00	6,761,100.00	15,163,600.00	23,026,843.74	16,039,218.62	26,191,300
.....	500,000.00	82,145.53	1,250,000.00	1,418,184.44	.....
5,111,100.00	6,261,000.00	15,081,454.47	21,776,843.74	14,621,034.18	26,191,300
		1,141.32	.....	.....	
22,571,509.17	$ 22,625,150.61	$ 40,893,647.04	$ 72,630,997.42	$ 44,514,370.81	$ 51,557,264
4,916,987	4,916,987	5,044,053	6,045,530	6,047,527	6,060,926
4.5905	4.6014	8.1073	12.0140	7.3608	8.5065
9,833,974.00	9,833,974.00	12,466,634.75	18,136,610.25	18,142,619.25	21,217,157
$2.00	$2.00	$2.50	$3.00	$3.00	$3.50

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[6236]

[6237]

Exhibit No. 5

[*Note: This exhibit was rejected by the Examiner at record 5519 and was not received in evidence. An offer of proof was made on page 5763 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.*]

PHILLIPS PETROLEUM COMPANY AND SUBSIDIARY COMPANIES
GAS OPERATIONS
CONDENSED INCOME ACCOUNT — PER BOOKS

Years Ended December 31, 1938 to 1950

BLEED THROUGH

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	1946	1947	1948	1949	1950
GROSS OPERATIN					
Lease Productio	553,289.26	$ 616,765.04	$ 860,605.70	$ 896,403.31	$ 1,093,070
Lease Productio	5,937,249.32	6,751,012.72	6,348,066.86	6,326,082.14	13,166,187
Distributing Syst	89,269.94	97,341.62	727,767.71	1,890,213.62	2,632,631
Distributing Syst	41,807.89	14,274.51	13,951.96	606,213.77	858,312
Pipe Line Incon	214,926.77	236,855.22	243,879.35	843,608.02	410,994
Pipe Line Incon	3,316.00	4,826.50	195,280.31	373,956.76	488,298
Grayco Booster	651,801.08	641,490.29			
Residue Sales—o	8,082,462.47	11,019,313.64	14,361,315.29	15,429,486.17	20,274,484
Residue Sales—i	1,490,301.68	1,646,471.88	2,396,924.01	2,552,944.24	4,336,261
Carbon Black Sa	728,496.39	70,529.21			
Other Income	19,204.54	27,368.86	44,210.69	46,886.20	2,764,328
	17,812,125.34	21,126,249.49	25,192,031.88	28,965,794.23	46,024,569
Less: Intradepar	6,401,048.14	7,254,976.22	6,794,668.30	6,972,487.30	15,326,689
	1,411,077.20	13,871,273.27	18,397,363.58	21,993,306.93	30,697,879
COSTS, OPERATIN					
Distributing Syst	57,997.35	62,314.69	53,791.40	1,419,807.31	1,664,045
Distributing Syst	27,614.92	22,267.12	.....	933,089.41	1,669,014
Pipe Line Purch	5,056.77	12,096.52	154,747.70	302,366.97	376,249
Pipe Line Purch	72,116.21	78,068.41	78,034.36	369,083.12	138,261
Grayco Booster	309,472.09	304,631.68	340,503.77	.....	
Residue Purchas	2,130,732.30	2,664,184.05	3,415,993.47	4,529,668.16	7,490,675
Residue Purchas	5,782,911.63	7,996,897.17	7,530,471.05	7,216,455.93	15,692,235
Cost of Carbon	600,803.26	62,438.86	.....		
Operating Expe	732,638.72	790,391.02	1,075,296.01	1,032,962.37	1,271,651
Inventory Adjus					
Undeveloped lea	383,591.10	373,209.59	339,573.03	378,693.57	352,537
Sales Expense					
General Expens	744,076.20	636,752.61	1,032,901.91	801,725.80	767,753
Geological, Geop	525,536.36	613,565.73	820,771.78	681,180.59	1,831,058
Taxes (Ad Valor	336,880.71	594,919.18	594,804.54	699,868.78	1,171,059
	11,709,427.62	14,211,736.63	15,436,889.02	18,364,902.01	32,424,540
Less: Intradepar	6,401,048.14	7,254,976.22	6,794,668.30	6,972,487.30	15,326,689
	5,308,379.48	6,956,760.41	8,642,220.72	11,392,414.71	17,097,851
PROFIT FROM SA	6,102,697.72	6,914,512.86	9,755,142.86	10,600,892.22	13,600,028
	(324.14)	93,373.44	2,980.85	18,860.34	3,336
	6,102,373.58	7,007,886.30	9,758,123.71	10,619,752.56	13,603,364
INDIRECT CHARG					
Overhead					
Taxes (State Inc	605,654.77	768,026.58	857,660.57	839,500.50	1,120,829
Taxes (Social Se	6,200.00	8,026.00	13,609.00	12,285.65	27,085
Taxes (State Inc	14,357.57	17,526.52	14,478.00	15,604.96	18,694
	626,212.34	793,579.10	885,747.57	867,391.11	1,166,608
Income before F	5,476,161.24	$ 6,214,307.20	$ 8,872,376.14	$ 9,752,361.45	$12,436,756

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[6239]

[6240]

Exhibit No. 6

[*Note: This exhibit was rejected by the Examiner at record 5519 and not received in evidence. An offer of proof was made on page 5763 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.*]

PHILLIPS PETROLEUM COMPANY AND SUBSIDIARY COMPANIES

GAS OPERATIONS
CONSOLIDATED INCOME ACCOUNT

YEAR TO DATE — DECEMBER 31, 1949

BLEED THROUGH

BLURRED COPY

	NG SYSTEM		
	Co. ction ment	I. N. G. Co. & Phillips Natural Gas Co.	Residue
GROSS OPERATING INCOME			
Sales—outside	213.62	$ 843,608.02	$15,429,486.17
Sales—inside	213.77	373,956.76	2,552,944.24
Other income	.....	3,504.57	.....
	127.39	1,221,069.35	17,982,430.41
COSTS, OPERATING AND GE			
Purchases—outside	307.31	302,366.97	4,529,668.16
Purchases—inside	089.41	369,083.12	7,216,455.93
Operating expenses	545.84	277,912.17	539,333.37
Undeveloped leases rental ex	.....	.....	.....
Geological, Geophysical and	.....	.....	.....
General expense	375.43	(2,555.40)	577,654.76
Taxes (ad valorem, etc.)	.....	13,447.76	16,914.15
	517.99	960,254.62	12,880,026.37
	09.40	260,814.73	5,102,404.04
PROFIT FROM SALE OF CAP	.....	.....	.....
Income before indirect charg	09.40	260,814.73	5,102,404.04
INDIRECT CHARGES:			
Overhead	690.68	41,700.00	113,834.11
Taxes—State income	.....	115.65	12,065.00
Taxes—Social Security, Sales	662.37	2,087.48	10,523.72
	53.05	43,903.13	136,422.83
Income before reserves and	956.35	216,911.60	4,965,981.21
RESERVES:			
General extinguishments	42.77	.....	9,898.80
Depreciation	938.00	112,236.36	191,815.46
Retirements	43.42)	6,638.60	830.09
Dry holes	.....	.....	.....
Depletion	.....	.....	.....
Intangible development cost	.....	.....	.....
Expired and surrendered lea	.....	.....	.....
	37.35	118,874.96	202,544.35
Net income before Federal	919.00	98,036.64	4,763,436.86
PROVISION FOR FEDERAL T	00.00	15,018.62	1,264,700.00
NET INCOME	19.00	83,018.02	3,498,736.86

Prepared by Comptroller's Depa
Consolidated Statements Section
January 31, 1950
( ) Denotes red figures

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[6241]

[6242]

[6243]

[6244]

Exhibit No. 7

[Note: This exhibit was rejected by the Examiner at record 5519 and not received in evidence. An offer of proof was made on page 5763 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.]

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Schedule 2

[6242]

Gross Plant	Per Cent	Production Stock (Materials & Supplies)
$359,823,145.00	85.68	$ 1,257,935.00
60,130,665.00	14.32	210,243.00

Docket G-1148

Gas Sales:
Outside
Inside

Total Gas Sales (Sched

Operating Expenses (Schedule 4

Net Earnings before Federa
Taxes and Return All

Return at assumed rate of 8½'
(Schedule 2)

Excess Earnings and T

Note: Gas sales and operating e
reflected by the books wi

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[6355]

Exhibit No. 9-A

CONTRACT

AGREEMENT made and entered into this 5th day of April, 1943, by and between PHILLIPS PETROLEUM COMPANY, a Delaware corporation, hereinafter referred to as "Phillips" and PANHANDLE EASTERN PIPE LINE COMPANY, a Delaware corporation, hereinafter referred to as "Panhandle Eastern."

WITNESSETH:

1. Panhandle Eastern is the owner of a gas pipe line system which secures the greater part of its supply of gas in the Hugoton gas field located in Kansas, Oklahoma and Texas and the Panhandle field located in Texas. Phillips represents that it is the owner of valid and subsisting gas leases covering one hundred seventy-five thousand (175,000) acres of land (hereinafter referred to as "the dedicated acreage") in the Hugoton field within an area in Texas County, Oklahoma, and the Northern parts of Sherman and Hansford Counties, Texas, which area is described as follows:

• • •

[6367]

10. All gas delivered by Phillips under the terms of this contract shall contain less than one (1) grain of hydrogen sulphide per one hundred (100) cu. ft. of gas and less

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than twenty (20) grains of total sulphur per one hundred (100) cu. ft. The heating value of all gas delivered hereunder shall in no event, at the time and place of delivery, be less than nine hundred and fifty (950) British Thermal Units per cu. ft. and, in the event the heating value of such gas shall be less than nine hundred and seventy-five (975) British Thermal Units per cu. ft., the

[6368]

price of such gas, as hereinafter provided, shall be decreased to that proportionate part of such price that the British Thermal Unit content of such gas per cu. ft. bears to nine hundred and seventy-five (975). All gas delivered by Phillips from the dedicated acreage and all supplemental deliveries of gas delivered at the same delivery point, as provided in paragraph 8 (b) above, shall be dehydrated by Phillips to a point sufficient that formation of hydrates in the line will not interfere with the transportation of such gas through Panhandle Eastern's pipe line to its Liberal Station.

* * *

[6376]

Exhibit No. 9-B

SUPPLEMENTAL CONTRACT

Between

PHILLIPS PETROLEUM COMPANY

and

PANHANDLE EASTERN PIPE LINE COMPANY

April 5, 1943

* * *

[6382]

ARTICLE V

(POINT OF DELIVERY)

The point of delivery of all gas to be delivered by Phillips to Panhandle Eastern hereunder shall be at the suction side of Panhandle Eastern's Sneed Compressor Station, at a point on Panhandle Eastern's station site to be mutually agreed upon by Panhandle Eastern and Phillips.

ARTICLE VI

(PRESSURE)

Delivery of gas hereunder shall be made at the point of delivery at a minimum pressure of two hundred seventy-

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five pounds to the square inch gauge, and Phillips agrees to install and maintain such compressing equipment as shall be necessary to maintain such minimum delivery pressure.

ARTICLE VII

(QUALITY)

1. Phillips agrees that the gas delivered hereunder shall be natural gas produced from gas acreage owned and controlled by Phillips in the Panhandle field of Texas. Phillips shall have the right, before delivery to Panhandle Eastern, to remove a portion of the hydrocarbons from such gas; provided, however, that no natural gas delivered hereunder shall have a total heating value at the point of delivery below 1000 British thermal units per cubic foot.

2. All gas delivered by Phillips under the terms of this contract shall be merchantable dry gas and shall contain less than one grain of hydrogen sulphide per one hundred cubic feet of gas and less than twenty grains of total sulphur per one hundred cubic feet. Phillips agrees that the gas delivered hereunder shall not contain an amount of moisture at any time exceeding that corresponding to saturation at the temperature and pressure of the gas at the point of delivery and that water shall not be present in liquid phase.

3. In the event Phillips shall deliver, or tender for delivery, to Panhandle Eastern, gas not measuring up to the minimum standards of purity and quality set forth in this

agreement, Panhandle Eastern (in addition to any other remedy it may have) shall have the right to refuse to accept deliveries of such gas until the deficiency or deficiencies are corected and, if not corrected within ninety days, to terminate this contract without liability to Phillips except for the payment for gas theretofore delivered.

4. Phillips warrant that the content of hydrogen sulphide, mercaptans and carbon dioxide, respectively, of all gas delivered hereunder, will not exceed the content of hydrogen sulphide, mercaptans and carbon dioxide, respectively, of the gas going into Panhandle Eastern's Sneed station from all other sources in the Panhandle field, and that no gas delivered hereunder shall be more corrosive or harmful to Panhandle Eastern's facilities than the gas going into Panhandle Eastern's Sneed Station from all other sources in the Panhandle field and that no such gas shall cause any gas in Panhandle Eastern's pipe line system to be unsaleable under any now existing contract of Panhandle Eastern. For violation of this warranty, Phillips shall be responsible to Panhandle Eastern in damages, and Panhandle Eastern may at its option refuse to accept further deliveries from Phillips until the condition or conditions causing such violation shall have been removed, and, if not removed within ninety days, Panhandle Eastern shall have the right to terminate this contract without liability to Phillips except for payment for gas theretofore delivered.

• • •

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[6404]

Exhibit 9-C

PROCESSING CONTRACT

AGREEMENT made and entered into this 25th day of May, 1943, by and between PANHANDLE EASTERN PIPE LINE COMPANY, a Delaware corporation, hereinafter referred to as "Panhandle Eastern," and PHILLIPS PETROLEUM COMPANY, a Delaware corporation, hereinafter referred to as "Phillips,"

WITNESSETH:

PART ONE — PROCESSING OF GAS

ARTICLE I.

Scope of Agreement.

1. The parties hereto have entered into a certain Supplemental Contract, hereinafter referred to as the "Supplemental Contract," dated April 5, 1943, which provides that, subject to the happening of contingencies therein stated, Phillips shall sell and deliver to Panhandle Eastern and Panhandle Eastern shall purchase and receive certain volumes of natural gas produced from acreage owned and controlled by Phillips in the Panhandle Field of Texas, such gas to be delivered by Phillips to Panhandle Eastern at the suction of Panhandle Eastern's Sneed Compressor Station in the Panhandle Field. Said Supplemental Contract is hereby referred to for all pertinent purposes.

2. The verb "process" as used in its various forms herein shall refer only to the extraction of hydrocarbons from natural gas.

3. Under the terms of said Supplemental Contract Phillips has the right, before delivery of gas thereunder to Panhandle Eastern, to process such gas within the limitations provided in said Supplemental Contract, and the parties hereto have now agreed that, subject to and in accordance with the provisions of this Processing Contract, Phillips shall process all natural gas produced and purchased by Panhandle Eastern in the Panhandle Field, including the natural gas delivered by Phillips under said Supplemental Contract. Accordingly, it is hereby agreed by the parties hereto

[6405]

that, subject to the conditions stated in said Supplemental Contract upon the respective obligations of the parties hereto to perform said Supplemental Contract and subject also to Phillips' obtaining all authorizations and materials necessary for the performance of this contract by Phillips as hereinafter provided, Phillips shall construct a natural gasoline plant near or adjacent to Panhandle Eastern's Sneed Station in the Panhandle Field and shall process in said plant all natural gas produced and purchased by Panhandle Eastern in the Panhandle Field of Texas.

ARTICLE II.

Construction, Ownership and Operation of Plant.

1. Phillips agrees that, proceeding immediately, it will use its best efforts to obtain a plant site adjacent to the site of Panhandle Eastern's Sneed Station and all necessary authorizations and materials for the construction of a natu-

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ral gasoline plant on said site of sufficient size and capacity to process not less than two hundred thirty million (230,000,000) cubic feet of natural gas per day and, in the event such site and authorizations and materials can be obtained and subject to the obtaining of all necessary authorizations and materials for the performance of said Supplemental Contract as therein provided, it will proceed with diligence in the construction of such natural gasoline plant. Unless said natural gasoline plant shall be in operations prior to the expiration of eighteen (18) months from the date hereof, all of the provisions of this Processing Contract, except the provisions of PART TWO hereof, shall terminate at the end of such eighteen (18) month period.

2. Said natural gasoline plant shall be designed and constructed to receive the natural gas from Panhandle Eastern's pipe line, after such gas shall have passed through the compressors in the Sneed Station, at the operating pressure on said line not to exceed five hundred fifty (550) pounds per square inch gauge and to process the gas and return it into Panhandle Eastern's line with a loss in pressure through the natural gasoline plant of not to exceed ten (10) pounds per square

[6406]

inch gauge and at a temperature within four (4) degrees of the temperature at which the natural gas is received into the natural gasoline plant.

3. Said natural gasoline plant shall be constructed and operated at the sole cost and expense of Phillips and shall be the sole property of Phillips. Subject only to the pro-

visions of this Processing Contract, Phillips shall have the sole management and control of the operation of said natural gasoline plant, and Panhandle Eastern shall have no responsibility with respect to any gas, or on account of anything which may be done, happen or arise with respect thereto, after it has been delivered to Phillips for processing purposes, until such gas, after processing, has been redelivered to Panhandle Eastern.

ARTICLE III.

Shrinkage and Natural Gasoline Extraction.

1. The term "Phillips' gas" will be used herein to mean the natural gas delivered by Phillips to Panhandle Eastern at the suction of the Sneed Station under the terms of said Supplemental Contract above mentioned and the term "Panhandle Eastern's gas" will be used to mean all natural gas produced and purchased by Panhandle Eastern in the Panhandle Field and processed in said natural gasoline plant other than Phillips' gas as so defined.

2. Until the date on which, under the terms of the Gas Contract dated April 5, 1943, between the parties hereto, which is referred to in the Supplemental Contract as the "Original Contract," Phillips first delivers gas to Panhandle Eastern from the dedicated acreage in Texas County, Oklahoma and Sherman and Hansford Counties, Texas, described in said Gas Contract, Phillips shall extract from Panhandle Eastern's gas natural gasoline having a Reid vapor pressure of twenty-six (26) pounds at one hundred degrees (100°) Fahrenheit. Thereafter, the natural gasoline

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extracted by Phillips from Panhandle Eastern's gas shall have such Reid vapor pressure at one hundred degrees (100°) Fahrenheit as shall be designated from time to time by Panhandle Eastern, in a number of pounds which shall be a multiple of

[6407]

two, and shall not be more than twenty-six (26) pounds nor less than fourteen (14) pounds; provided that Phillips shall not be required at any time to extract from Panhandle Eastern's gas a natural gasoline having a Reid vapor pressure at one hundred degrees (100°) Fahrenheit of less than twenty-six (26) pounds unless, at that time, the natural gasoline extracted by Panhandle Eastern at its Liberal Gasoline Plant near Liberal, Kansas, shall have a Reid vapor pressure at one hundred degress (100°) Fahrenheit of not to exceed fourteen (14) pounds. At least sixty (60) days prior to the commencement of each annual period, beginning with the date of first delivery of gas from the dedicated acreage under said Original Contract, Panhandle Eastern shall designate to Phillips in writing the vapor pressure natural gasoline, within the limitations hereinabove stated, to be extracted by Phillips from Panhandle Eastern's gas during such yearly period or until further designation as herein provided. During any such yearly period Panhandle Eastern may designate by written notice to Phillips a different vapor pressure natural gasoline, within the limitations hereinabove stated, to be extracted by Phillips from Panhandle Eastern's gas beginning on a date not sooner than sixty (60) days from such designation. Phillips agrees that it will at all times extract at least 95%

of the pentanes and heavier products from all gas processed in said natural gasoline plant.

3. It is agreed that, instead of the delivery by Phillips to Panhandle Eastern, under the Supplemental Contract, of natural gas with a portion of the hydrocarbons previously removed in accordance with the provisions of said Supplemental Contract, Phillips shall have the right to deliver the gas without the removal of hydrocarbons therefrom, and shall have the right to retain all natural gasoline extracted by Phillips in said natural gasoline plant from Phillips' gas delivered under the terms of said Supplemental Contract. It is further agreed that Phillips shall deliver to Panhandle Eastern at the point of delivery under said Supplemental Contract, without charge to Panhandle Eastern, in addition to the

[6408]

volumes of gas delivered under the terms of said Supplemental Contract, a volume of natural gas equal to the volume of gas lost by shrinkage due to extraction of natural gasoline in said natural gasoline plant from the natural gas delivered under said Supplemental Contract. As a part of the consideration for this contract, Phillips also agrees to deliver to Panhandle Eastern at the same point of delivery, without charge to Panhandle Eastern, a volume of natural gas equal to the volume of gas lost by shrinkage due to extraction of natural gasoline in said natural gasoline plant from Panhandle Eastern's gas. The limitation upon the extraction of gasoline from the gas delivered hereunder equal to volumes of gas lost by shrinkage of Phillips' gas shall

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be as provided in the Supplemental Contract in respect of Phillips' gas; and the vapor pressure of the gasoline extracted from the gas delivered hereunder equal to volumes of gas lost by shrinkage of Panhandle Eastern's gas shall be the vapor pressure designated by Panhandle Eastern in respect of Panhandle Eastern's gas as provided in paragraph 2 of this Article III. All such gasoline shall belong to Phillips. The volumes of all gas furnished under the provisions of this Paragraph 3, equal to volumes of gas lost by shrinkage of Phillips' gas and shrinkage of Panhandle Eastern's gas shall be determined by multiplying the total number of gallons of natural gasoline produced each day in said natural gasoline plant (except the gasoline extracted from the gas furnished by Phillips for fuel in the operation of the natural gasoline plant) by the number of cubic feet per gallon as determined by Table II of Exhibit "A" attached hereto.

* * *

[6532]

Exhibit No. 10-K

CONTRACT

AGREEMENT made and entered into this 13th day of October, 1945, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation with an office at El Paso, Texas, hereinafter referred to as "El Paso", and PHILLIPS PETROLEUM COMPANY, a Delaware corporation with an office at Bartlesville, Oklahoma, hereinafter referred to as "Phillips",

* * *

[6550]

ARTICLE V

Delivery Points

1. The point of delivery for all gas delivered hereunder from each of Phillips' four gasoline plants in the Permian Basin Area shall be at the outlet of the meter station to be installed and operated by El Paso near the property line of such plant and on the discharge side thereof.

2. The point of delivery for all gas delivered hereunder from the Panhandle and Hugoton Fields shall be at the outlet of the meter station to be installed and operated by El Paso at the outlet of Phillips' gathering and other facilities to be located within two (2) miles of the southeast corner of Section 198, Block 44, H&TC RR Company Survey, Moore County, Texas. Not later than thirty (30) days after El Paso shall have notified Phillips in writing that El Paso is ready to begin construction of the Pipe Line Phillips shall notify El Paso in writing of the location selected for such outlet.

ARTICLE VI

Pressure

1. All gas delivered hereunder at the delivery points in the Permian Basin Area shall be delivered at the discharge pressures of the respective gasoline plants but at not less than forty-five (45) pounds per square inch gauge at the Eunice Plant and forty (40) pounds per square inch gauge at the other three gasoline plants.

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2. All gas delivered hereunder from the Panhandle and Hugoton Fields of Texas shall be delivered at the pressure available in Phillips' facilities, but at not less than two hundred (200) pounds per square inch gauge.

[6551]

ARTICLE VII

QUALITY

1. All gas delivered by Phillips under the terms of this contract shall conform to the following specifications:

A. For gas delivered at the points of delivery in the Permian Basin Area:

(a) AIR. Phillips shall make diligent effort to prevent the introduction of any air into gas delivered at such delivery points. If the oxygen content of such gas exceeds two-tenths of one per cent (0.2%) by volume at any time El Paso may refuse to accept delivery of such gas.

(b) HYDROGEN SULPHIDE. El Paso shall not be required to accept delivery of gas having a hydrogen sulphide content exceeding one thousand (1000) grains per one hundred (100) cubic feet of gas unless Phillips shall pay for or tender payment for the increased cost of treating such gas above the cost of treating gas containing one thousand (1000) grains of hydrogen sulphide per one hundred (100) cubic feet.

(c) LIQUIDS. The gas shall be free of water and hydrocarbons in liquid form at the temperature and pressure at which the gas is delivered.

(d) DUST, GUMS AND SOLID MATTER. The gas shall be commercially free of dust, gums and other solid matter.

(e) HEATING VALUE. The total gross heating value shall not be less than nine hundred fifty (950) British thermal units per cubic foot and Phillips agrees that during the first five years after the beginning of delivery from the delivery points in the Permian Basin Area it will not change its operations of the four gasoline plants from the present methods of operation nor will it reduce the heating value of such gas by such operations below one thousand fifty (1050) British thermal units per cubic foot and will not after such five year period so operate its said four gasoline plants as to reduce the heating value of such gas below nine hundred eighty-five (985) British thermal units per cubic foot.

The specifications for hydrogen sulphide content and heating value in this subsection A shall apply to the average of the composite gas delivered hereunder at delivery points in the Permian Basin Area during each day.

Phillips agrees that, if and when, during any calendar month, it shall have any volumes of surplus gas available at any of the four

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gasoline plants above named in the Permian Basin Area not contracted to others and not required in its own operations, El Paso shall have the right to receive, without charge, a volume of such available surplus gas up to a volume equal to the volume of carbon dioxide (CO_2) removed by El Paso during the preceding calendar month from the gas delivered to El Paso from such plants under the provisions of ARTICLE IV hereof. The volumes of such available surplus gas received by El Paso under the provisions of this paragraph shall not be considered in determining any volumes of gas delivered under the provisions of ARTICLE IV hereof.

B. For all gas delivered at the point of delivery in Moore County, Texas:

(a) OXYGEN. The oxygen content shall not exceed two-tenths of one per cent (0.2%) by volume.

(b) HYDROGEN SULPHIDE. The hydrogen sulphide content shall not exceed one-quarter (1/4) grain per one hundred (100) cubic feet of gas. Phillips agrees that the process of treatment which it will use for removal of hydrogen sulphide from gas deliverable at the delivery point in Moore County, Texas, will be the Girbitol process or its equivalent and that such treating plant will be operated to reduce the hydrogen sulphide content below one-quarter (1/4) grain per one hundred (100) cubic feet insofar as the plant installed will do so in normal operation.

(c) ORGANIC SULPHUR. The gas shall not contain more than five grains of organic sulphur (Mercaptans) per one hundred cubic feet.

(d) LIQUIDS The gas shall be free of water and hydrocarbons in liquid form at the temperature and pressure at which the gas is delivered.

(e) DUST, GUMS AND SOLID MATTER. The gas shall be commercially free of dust, gums and other solid matter.

(f) CARBON DIOXIDE. The gas shall not contain more than one per cent (1.0%) by volume of carbon dioxide.

(g) HEATING VALUE. The total gross heating value shall not be less than nine hundred fifty (950) British thermal units per cubic foot.

C. Within the limits of the minimum heating value specifica-

[6653]

tions above, Phillips shall have the right before delivery of the gas to El Paso to remove from the gas delivered hereunder any constituents thereof other than methane, and shall have the right to remove such methane as is necessarily removed from the gas in the process of removing other constituents.

D. El Paso shall have the right to reject any gas which does not meet the specifications set forth in this ARTICLE VII.

* * *

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[6613]

Exhibit No. 10-W

CONTRACT

AGREEMENT made and entered into January 1, 1948, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation, with an office at El Paso, Texas, hereinafter referred to as "El Paso", and PHILLIPS PETROLEUM COMPANY, a Delaware corporation, with an office at Bartlesville, Oklahoma, hereinafter referred to as "Phillips".

* * *

[6618]

ARTICLE IV

Sales and Purchase of Gas

1. Within the limits of the volume of gas in respect of which El Paso is granted the first and preferential right of purchase under Section 2 of ARTICLE III hereof, it is agreed that, subject to the provisions of subsection D of Section 3 of ARTICLE I hereof, El Paso shall purchase and receive of and from Phillips and Phillips shall sell and deliver to El Paso, at the delivery points specified in ARTICLE V hereof, beginning not later than January 1, 1951, a daily average volume of eighty million (80,000,000) cubic feet, but not to exceed eighty-eight million (88,000,-

000) cubic feet in any one day and not to exceed in any one day at any delivery point a volume equal to one and one-tenth (1.1) times the average daily volume of gas purchased by El Paso at such delivery point during the twelve consecutive months preceding the calendar month in which such day occurs (or during the period elapsed since the beginning of such deliveries, whichever is the shorter).

2. In order that Phillips shall be able to market or otherwise dispose of surplus gas not purchased by El Paso at the four gasoline plants in the Permian Basin Area, it is agreed that gas shall be accepted by El Paso from said plants in the following order of precedence:

First —The Eunice Plant

Second—The Fullerton Plant

Third —The Seminole Plant

Fourth—The Goldsmith Plant

and that, as a condition upon El Paso's right to receive gas from the second, third or fourth of said plants, El Paso shall at the same time accept the total volume of surplus gas available for delivery hereunder from the plants preceding said plant in the above order of precedence.

[6619]

3. Phillips agrees that, if and when, during any calendar month, it shall have any volumes of surplus gas available at any of the four gasoline plants above named in the Permian Basin Area not contracted to others, or to El Paso under any other contract, and not required for its

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own operations, El Paso shall have the right to receive at each delivery point, without charge, in addition to the volumes deliverable under Section 1 of this ARTICLE IV, additional volumes of such available surplus gas as follows:

A. A volume of such surplus gas available at such delivery point up to a volume equal to the volume of carbon dioxide (CO_2) and hydrogen sulphide (H_2S) removed by El Paso during the preceding calendar month from the gas delivered to El Paso at such delivery point under the provisions of Section 1 of this ARTICLE IV.

B. A volume of such surplus gas available at such delivery point up to the volume required for fuel for the operation of El Paso's initial compressor station and other facilities used in compressing gas delivered hereunder at that delivery point.

Volumes of such available surplus gas received by El Paso under the provisions of this paragraph shall not be considered in determining any volumes of gas delivered under the preceding sections of this ARTICLE IV.

4. In the event deliveries of gas to El Paso at any delivery point are by reason of causes within control of Phillips or force majeure intervention less than the volume which El Paso is entitled otherwise to receive hereunder, the volume which El Paso would have taken except for such failure to deliver shall be used in computing the limitation on maximum daily deliveries specified in this section of one and one-tenth (1.1) times the average daily

volume of gas purchased by El Paso at said delivery points during the twelve consecutive months preceding the calendar month in which such day occurs.

[6620]

ARTICLE V

Delivery Points

1. The point of delivery for all gas delivered hereunder from each of Phillips' four gasoline plants in the Permian Basin Area shall be at the outlet of the meter station to be installed and operated by El Paso near the property line of such plant and on the inlet side of El Paso's compressor station.

2. Phillips may at any time and from time to time at its option make deliveries of volumes of gas which it has contracted to supply El Paso from its four named plants in the Permian Basin Area, if available, from any other source or sources in lieu of deliveries from said four named plants or to supply all or any part of any deficiency between the amounts available at said four named plants plus volumes from any source from which Phillips has elected to deliver deficiencies pursuant to this section and such contract volumes. Gas delivered pursuant to the option granted in this section from any other source or sources shall meet the quality specifications of this contract and be of the same quality as gas in the Pipe Line at the point where delivered or of a higher quality and may be delivered at any point on the Pipe Line. In the event El Paso shall not have capacity in facilities installed for receiving the

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gas at and handling the same from the point selected by Phillips for delivering such gas, cost of installing required facilities will be borne by Phillips. If, in any calendar year during the term of this contract there shall not have been sufficient available surplus gas at the said four named plants to provide an average daily volume equal to the contract volume specified for delivery therefrom if available and Phillips shall not have supplied the deficiency during such year from other source or sources, then if Phillips desires thereafter to

[6621]

supply all or any part of volumes required to assure full deliveries of contract volumes it may do so only if it notifies El Paso within thirty (30) days after the end of the aforesaid calendar year of its election to supply such deficiencies from other source or sources commencing within twelve (12) months from the date of such notice, and only if Phillips provides reasonable assurance to El Paso that it will have available for delivery under this contract from such other source or sources for a period of five (5) years not less than the average daily volumes of gas specified in such notice. Phillips will notify El Paso at least ninety (90) days in advance of delivery of any in lieu gas pursuant to the provisions of this section. Any notice pursuant to this section will specify the delivery point, source or sources, the average daily volumes of gas to be delivered, and the time when such deliveries will be commenced.

ARTICLE VI

Pressure

All gas delivered hereunder shall be delivered at the pressures existing in Phillips' facilities at the respective gasoline plants but at not less than forty-five (45) pounds per square inch gauge at the Eunice Plant and forty (40) pounds per square inch gauge at the other gasoline plants.

ARTICLE VII

Quality

1. All gas delivered by Phillips under the terms of this contract shall conform to the following specifications:

A. *Air.* Phillips shall make diligent effort to prevent the introduction of any air into gas delivered hereunder. If the oxygen content of such gas exceeds two-tenths of one per cent (0.2%) by volume at any time El Paso may refuse to accept delivery of such gas.

[6622]

B. *Hydrogen Sulphide.* El Paso shall not be required to accept delivery of gas having a hydrogen sulphide content exceeding one thousand (1000) grains per one hundred (100) cubic feet of gas unless Phillips shall pay for or tender payment for the increased cost of treating such gas above the cost of treating gas containing one thousand (1000) grains of hydrogen sulphide per one hundred (100) cubic feet.

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C. *Liquids.* The gas shall be free of water and hydrocarbons in liquid form at the temperature and pressure at which the gas is delivered.

D. *Dust, Gums and Solid Matter.* The gas shall be commercially free of dust, gums and other solid matter.

E. *Heating Value.* The total gross heating value shall not be less than one thousand fifty (1050) British thermal units per cubic foot.

Notwithstanding the foregoing, during any period in which Phillips makes deliveries to El Paso of gas from plants in the Permian Basin Area under other contracts, the specifications for heating value and hydrogen sulphide content of all contracts for such deliveries shall be considered together, and the weighted average of such specifications shall apply to the average of the composite gas delivered to El Paso at delivery points in the Permian Basin Area during each day.

2. El Paso shall have the right to reject any gas which does not meet the specifications set forth in this ARTICLE VII.

ARTICLE VIII

Extraction of Liquids

1. Within the limits of the minimum heating value specifications

stated above, Phillips shall have the right to remove from the gas delivered hereunder any constituents thereof other than methane and shall have the right to remove such methane as is necessarily removed from the gas in the process of removing other constituents.

2. In order that it may take advantage of the increased pressures, Phillips shall have the right to install extraction facilities downstream from El Paso's compressor stations to be located at each delivery point and upstream from El Paso's dehydration and desulphurization equipment. Notwithstanding any other provision of this contract, in the event it does so operate extraction facilities downstream from El Paso's compressor stations:

A. The specifications in ARTICLE VII shall be applicable to the gas at the delivery point above specified, except that the specifications in respect of liquids and heating value shall be applicable to the gas at the discharge of Phillips' extraction facilities. The temperature of the gas delivered by Phillips at each of said delivery points shall not be less than sixty degrees (60°) Fahrenheit and, if in excess of sixty degrees Fahrenheit, shall not be greater than twenty degrees (20°) Fahrenheit above the atmospheric wet bulb temperature. El Paso will return the gas to Phillips at the inlet of Phillips' extraction facilities at as low a temperature as is practicable and not in excess of seventy degrees (70°) Fahrenheit or twenty degrees

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(20°) Fahrenheit above the atmospheric wet bulb temperature, whichever is greater.

B. The reduction in volumes of gas delivered hereunder due to the extraction of hydrocarbons and use of fuel in Phillips' extraction facilities and due to the extraction of hydrocarbons in El Paso's initial compressor stations shall be determined in accordance with

[6624]

the procedure stated in Exhibit "B" attached hereto.

C. Phillips will deliver to El Paso at said delivery points volumes of gas sufficient to assure El Paso net volumes (i. e. volumes after deduction from the total volumes of gas delivered hereunder, shrinkage due to the extraction of hydrocarbons and due to gas taken for fuel in Phillips' extraction facilities) equal to those specified hereinabove for delivery in the Permian Basin Area, and El Paso shall pay for *only* such net volumes.

D. Such extraction facilities and the appurtenant equipment installed by Phillips shall be designed, constructed and operated to receive the gas after the same shall have passed through El Paso's initial compressor stations at the operating pressure on the pipe line not to exceed six hundred (600) pounds per square inch gauge pressure and to process the gas and return it into El Paso's facilities with a loss in pressure not to exceed fifteen (15) pounds per square inch gauge, and at a temperature not to exceed by more than five de-

grees (5°) Fahrenheit the temperature of the gas as received.

E. As reimbursement to El Paso for the cost of compression of the volume of gas shrinkage in such extraction facilities and El Paso's initial compressor stations due to the extraction of hydrocarbons and compression of the volumes of gas taken from the Pipe Line and used as fuel in said extraction facilities and appurtenances thereto, Phillips agrees to pay El Paso one and seventy-five one-hundredths cents (1.75¢) per one thousand (1000) cubic feet of the volume of gas shrinkage in the extraction facilities and compressor stations due to the extraction of hydrocarbons and of the volume of gas taken from the Pipe Line and used as fuel in said extraction

[6625]

facilities and appurtenances thereto, all such volumes to be determined as above provided. Phillips may take gas for fuel for the operation of its extraction facilities and/or appurtenances thereto downstream from El Paso's desulphurization equipment, in which event volume so taken will be measured by suitable orifice meter and Phillips will pay to El Paso, in addition to one and seventy-five one-hundredths cents (1.75¢) per one thousand cubic feet above provided, seventy-five one-hundredths cents (0.75¢) per one thousand cubic feet of fuel gas so taken downstream from El Paso's desulphurization equipment. The sums due from Phillips to El Paso each month under the terms of this sub-

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section E shall be deducted from the statement from Phillips to El Paso for gas purchased during such month.

F. Phillips shall be entitled to all hydrocarbons removed from the gas through the operation of El Paso's initial compressor stations and may install appropriate connections to take delivery thereof from El Paso's facilities.

G. Cost of all facilities which would not have been installed if Phillips had not installed extraction facilities downstream from El Paso's compressor station will be borne by Phillips. Phillips will bear any tax burden caused solely by the operation of its extraction facilities downstream rather than upsteam from delivery points.

H. Phillips shall indemnify El Paso and hold it harmless of and from any and all cost or liability due to the construction, maintenance or operation of Phillips' said extraction facilities and appurtenances thereto, and the possession of or the handling

[6626]

or loss of the gas from the time it is received by Phillips at the discharge of El Paso's initial compressor station until it is returned to El Paso's facilities.

• • •

[6653]

Exhibit No. 10-BB

CONTRACT

AGREEMENT made and entered into November 4, 1948, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation, with an office at El Paso, Texas, hereinafter referred to as "El Paso", and PHILLIPS PETOLEUM COMPANY, a Delaware corporation, with an office at Bartlesville, Oklahoma, hereinafter referred to as "Phillips",

WITNESSETH:

WHEREAS, Phillips represents that it owns and operates a natural gasoline plant located in the Goldsmith Field in Ector County, Texas, hereinafter referred to as the "Goldsmith Plant" or "said plant", and in said plant Phillips processes, for the extraction and manufacture of gasoline and other products, gas produced in the Goldsmith and other fields, some of which is produced from Phillips' leases in said fields but the greater part of which is purchased by Phillips under contracts which are for relatively short terms but which Phillips expects, but does not guarantee, to be able to renew from time to time; and

WHEREAS, after the extraction of gasoline and other products from gas processed in said plant it is necessary to use gas from said plant for the operation of the plant and to deliver gas to the leases for development and opera-

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tion of the leases, but Phillips expects to have available for sale surplus residue gas (as hereinafter defined) at said plant and El Paso is desirous of purchasing such gas.

NOW, THEREFORE, the parties hereto have agreed that:

• • •

[6657]

ARTICLE VII.

Extraction of Liquids

1. Within the limits of the minimum heating value specifications stated above, Phillips shall have the right to remove from the gas delivered hereunder any constituents thereof other than methane and shall have the right to remove such methane as is necessarily removed from the gas in the process of removing other constituents.

2. In the event El Paso shall compress any portion of the gas delivered hereunder, Phillips, in order that it may take advantage of the increased pressures in the extraction of hydrocarbons from such gas, shall have the right to install and operate extraction facilities downstream from El Paso's compressor station located at the delivery point and upstream

[6658]

from El Paso's dehydration and desulphurization equipment. Notwithstanding any other provision of this contract, in the event it does so operate extraction facilities downstream from El Paso's compressor station:

A. As to gas so compressed, the specifications in Article VI shall be applicable to such gas at the delivery point, except that the specifications in respect of liquids and heating value shall be applicable to such gas at the discharge of Phillips' extraction facilities. The temperature of the gas delivered by Phillips at said delivery point shall not be less than sixty degrees (60°) Fahrenheit and, if in excess of sixty degrees (60°) Fahrenheit, shall not be greater than twenty degrees (20°) Fahrenheit above the atmospheric wet bulb temperature. El Paso will return the gas to Phillips at the inlet of Phillips' extraction facilities at as low a temperature as is practicable and not in excess of seventy degrees (70°) Fahrenheit or twenty degrees (20°) Fahrenheit above the atmospheric wet bulb temperature, whichever is greater.

B. The reduction in volumes of gas delivered hereunder due to the extraction of hydrocarbons and use of fuel in Phillips' extraction facilities and due to the extraction of hydrocarbons in El Paso's initial compressor station shall be determined in accordance with the procedure stated in Exhibit "B" attached hereto.

C. Phillips will deliver to El Paso volumes of gas sufficient to assure El Paso net volumes (i. e. volumes after deduction from the total volumes of gas delivered hereunder, shrinkage due to the extraction of hydrocarbons and due to gas taken for fuel in

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Phillips' extraction facilities) equal to those specified hereinabove for delivery hereunder, and El Paso shall pay for only such net volumes.

D. Such extraction facilities and the appurtenant equipment installed by Phillips shall be designed, constructed and operated to receive the gas after the same shall have passed through El Paso's initial compressor station at the operating pressure on its pipe line at that point not to exceed six hundred (600) pounds per square inch gauge pressure and to process the gas and return it into El Paso's facilities with a loss in pressure not to exceed fifteen (15) pounds per square inch gauge, and at a temperature not to exceed by more than five degrees (5°) Fahrenheit the temperature of the gas as received.

E. As reimbursement to El Paso for the cost of compression of the volume of gas shrinkage in such extraction facilities and El Paso's initial compressor station due to the extraction of hydrocarbons and compression of the volumes of gas taken from El Paso's facilities and used as fuel in said extraction facilities and appurtenances thereto, Phillips agrees to pay El Paso one and seventy-five one-hundredths cents (1.75¢) per one thousand (1000) cubic feet of the volume of gas shrinkage in the extraction facilities and compressor station due to the extraction of hydrocarbons and of the volume of gas taken from El Paso's facilities and used as fuel in said extraction facilities

and appurtenances thereto, all such volumes to be determined as above provided. Phillips may take gas for fuel for the operation of its extraction

[6660]

facilities and/or appurtenances thereto downstream from El Paso's desulphurization equipment, in which event volume so taken will be measured by suitable orifice meter and Phillips will pay to El Paso, in addition to one and seventy-five one-hundredth cents (1.75¢) per one thousand cubic feet above provided, seventy-five one-hundredths cents (0.75¢) per one thousand cubic feet of fuel gas so taken downstream from El Paso's desulphurization equipment. The sums due from Phillips to El Paso each month under the terms of this subsection E shall be deducted from the statement from Phillips to El Paso for gas purchased during such month.

F. Phillips shall be entitled to all hydrocarbons removed from the gas through the operation of El Paso's initial compressor station and may install appropriate connections to take delivery thereof from El Paso's facilities.

G. Cost of all facilities which would not have been installed if Phillips had not installed extraction facilities downstream from El Paso's compressor station will be borne by Phillips. Phillips wil bear any tax burden caused solely by the operation of its extraction facilities downstream rather than upstream from the delivery point.

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H. Phillips shall indemnify El Paso and hold it harmless of and from any and all cost or liability due to the construction, maintenance or operation of Phillips' said extraction facilities and appurtenances thereto, and the possession of or the handling or loss of the gas from the time it is received by Phillips at the discharge of El Paso's initial compressor station until it is

[6661]

returned to El Paso's facilities.

* * *

[6678]

Exhibit No. 10-DD

CONTRACT

AGREEMENT made and entered into August 31, 1948, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation, with an office at El Paso, Texas, hereinafter referred to as "El Paso", and PHILLIPS PETROLEUM COMPANY, a Delaware corporation, with an office at Bartlesville, Oklahoma, hereinafter referred to as "Phillips".

* * *

[6685]

ARTICLE V.

Delivery Point

The point of delivery for all gas delivered hereunder shall be at the outlet of the meter station to be installed

and operated by El Paso near the property line of said plant and on the inlet side of El Paso's compressor station and, if El Paso installs desulphurization equipment on the inlet side of such compressor station, then on the inlet side of such desulphurization equipment.

ARTICLE VI.

Pressure

All gas delivered hereunder shall be delivered at the pressures existing in Phillips' facilities at said plant but at not less than forty (40) pounds per square inch gauge.

ARTICLE VII.

Quality

1. All gas delivered by Phillips under the terms of this contract shall conform to the following specifications:

A. *Air.* Phillips shall make diligent effort to prevent the introduction of any air into gas delivered hereunder. If the oxygen content of such gas exceeds two-tenths of one per cent (0.2%) by volume at any time, El Paso may refuse to accept delivery of such gas.

B. *Liquids.* The gas shall be free of water and hydrocarbons in liquid form at the temperature and pressure at which the gas is delivered.

[6686]

C. *Dust, Gums and Solid Matter.* The gas shall be commercially free of dust, gums and other solid matter.

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D. *Heating Value.* The average gross heating value of gas delivered each month shall not be less than one thousand fifty (1050) British Thermal Units per cubic foot..

2. El Paso shall have the right to reject any gas which does not meet the specifications set forth in this Article VII.

* * *

[6842]

Exhibit No. 11-A

THIS CONTRACT, Made and entered into this 11th day of December, 1945, by and between MICHIGAN-WISCONSIN PIPE LINE COMPANY, a Delaware corporation, with an office at Detroit, Michigan, hereinafter referred to as "Buyer", and PHILLIPS PETROLEUM COMPANY, a Delaware corporation, with an office at Bartlesville, Oklahoma, hereinafter referred to as "Seller", WITNESSETH:

* * *

[6855]

ARTICLE IV.

DELIVERY POINT

The point of delivery for all gas delivered hereunder shall be at the outlet of the meter station to be installed and operated by Seller at a location to be selected by Seller on or before March 1, 1946, within one mile of the southwest corner of Section 8, Block 1, Public Free School Land

Survey, Hansford County, Texas. Upon selecting such location, Seller shall promptly advise Buyer thereof in writing.

ARTICLE V.

Pressure

All gas sold and purchased hereunder shall be delivered at the delivery point above specified at the pressure available in Seller's facilities, but not less than two hundred pounds per square inch gauge.

[6856]

ARTICLE VI.

Quality

1. All gas delivered by Seller under the terms of this contract shall conform to the following specifications:

(a) Odors and Solids. The gas shall be commercially free from objectionable odors, solid matter, dust, gums and gum-forming constituents which might interfere with its merchantability or cause injury to or interference with proper operation of the lines, regulators, meters or other appliances through which it flows.

(b) Oxygen. The gas shall not at any time have an oxygen content in excess of one per cent by volume, and Seller shall make every reasonable effort to keep the gas free of oxygen.

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(c) Liquids. The gas shall be free of water and hydrocarbons in liquid form.

(d) Hydrogen Sulphide. The gas shall not contain more than one grain of hydrogen sulphide per one hundred cubic feet.

(e) Total Sulphur. The gas shall not contain more than twenty grains of total sulphur (hydrogen sulphide and mercaptan sulphur) per one hundred cubic feet.

(f) Heating Value. The gas shall have a total heating value per cubic foot of not less than nine hundred seventy nor more than one thousand twenty British thermal units, the term "total heating value per cubic foot" meaning the number of British thermal units produced by the combustion, at constant pressure, of the amount of gas free from water vapor which would occupy a volume of one cubic foot at a temperature of sixty degrees Fahrenheit and under a pressure equivalent to that of thirty inches of mercury at thirty-two degrees Fahrenheit and under the standard gravitational force (the acceleration 980.665 c.m. per sec.) with air of the same temperature and pressure as the

gas, when the products of combustion are cooled to the initial temperature of gas and air and when the water formed by combustion is condensed to the liquid state. If the gas tendered for delivery by Seller to Buyer under this contract shall have a total heating value per cubic foot of less than nine hundred seventy

British thermal units, Seller shall at its own expense take such steps as shall be necessary to supply the deficiency in British thermal units.

2. Within the limits of the minimum heating value specification above, Seller shall have the right to remove from the gas delivered hereunder any constituents thereof other than methane, and shall have the right to remove such methane as is necessarily removed from the gas in the process of removing other constituents.

ARTICLE VII.

Natural Gasoline Plant

In order to meet the exigencies of Seller's operating conditions, it is agreed that Seller shall, at its option, have the right to install its natural gasoline plant, for the extraction of hydrocarbons from the gas delivered hereunder, on the Pipe Line downstream from Buyer's initial compressor station which will be located at or near the delivery point above specified. Not more than six months nor less than four months prior to the anticipated date of commencement of construction of the Pipe Line, Buyer shall notify Seller of such date, and Seller shall within thirty days thereafter notify Buyer in writing of Seller's election as to the location of such natural gasoline plant. In the event such plant shall be located downstream from Buyer's said initial compressor station,

(a) The specifications in Article VI in respect of Odors and Solids, Oxygen, Hydrogen Sulphide and

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Total Sulphur shall be applicable to the gas at the delivery point above specified, and the specifications in respect of Liquids and Heating Value shall be applicable to the gas at the discharge of Seller's said natural gasoline plant.

(b) Seller shall install and maintain metering equipment in such manner as to measure all volumes of gas lost by shrinkage in the natural gasoline plant and Buyer's initial compressor station due to extraction of hydrocarbons, and the volume of gas, if any, taken from the Pipe Line and used as fuel in said natural gasoline plant. Seller shall also install and maintain all devices and equipment reasonably necessary to control, and insofar as possible eliminate, pulsations affecting the accuracy of such metering equipment. Seller shall from time to time consult with Buyer with respect to the type, design and efficiency of such devices and equipment.

(c) In computing the volume of gas to be paid for by Buyer hereunder, the volume of gas lost by shrinkage in the natural gasoline plant and Buyer's initial compressor station due to extraction of hydrocarbons, and the volume of gas, if any, taken from the Pipe Line and used as fuel in said natural gasoline plant shall be deducted from the total volume of gas delivered to Buyer at the delivery point above specified.

(d) Such natural gasoline plant and the appurtenant equipment installed by Seller shall be designed,

constructed and operated to receive the gas after the same shall have passed through Buyer's initial compressor station, at the operating pressure on the Pipe Line, not to exceed nine hundred twenty-five pounds per square inch gauge pressure, and to process the gas and return it into Buyer's facilities with a loss in pressure not to exceed ten pounds per square inch gauge, and at a temperature within five degrees Fahrenheit of the temperature at which the gas is received by Seller at the discharge of Buyer's initial compressor station.

[6859]

(e) As reimbursement to Buyer for the cost of excess compression required by reason of Seller's natural gasoline plant and facilities, and for the cost of compression of the volume of gas lost by shrinkage in the natural gasoline plant and Buyer's initial compressor station due to extraction of hydrocarbons and compression of the volume of gas, if any, taken from the Pipe Line and used as fuel in said natural gasoline plant, Seller agrees to pay to Buyer one cent per one thousand cubic feet of the volume of gas lost by shrinkage in the natural gasoline plant and said compressor station due to extraction of hydrocarbons and the volume of gas, if any, taken from the Pipe Line and used as fuel in said natural gasoline plant, all such volumes to be determined as above provided. The sums due from Seller to Buyer each month under the terms of this subsection (e) shall be deducted from the state-

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ment from Seller to Buyer for gas purchased during such month.

(f) Seller shall be entitled to all hydrocarbons re-removed from the gas through the operation of Buyer's initial compressor station.

(g) Seller shall indemnify Buyer and hold it harmless of and from any and all cost or liability due to the construction, maintenance or operation of Seller's said natural gasoline plant and appurtenant facilities and the possession of, or the handling or loss of, the gas from the time it is received by Seller at the discharge of Buyer's initial compressor station until it is returned to Buyer's facilities.

• • •

[7175]

Exhibit No. 12-A

Revision of Exhibit No. 12, which is a diagram of pipe line facilities used to supply natural gas to Michigan Wisconsin Pipe Line Company at Sherman Plant, Texas.

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[7177]

Exhibit No. 13-A

Revision of Exhibit No. 13, which is a diagram of pipe line facilities used to supply natural gas to Panhandle Eastern Pipe Line Company at Hansford Plant, Texas.

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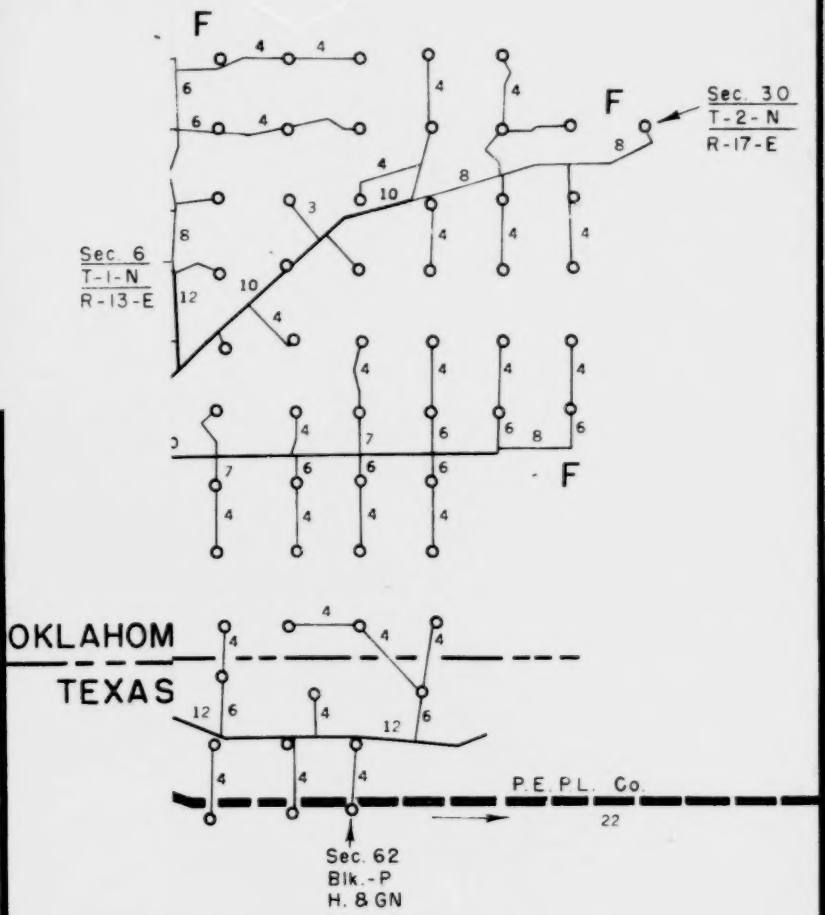

MAP No. 2

PHILLIPS PETROLEUM COMPANY

DIAGRAM OF

S USED TO SUPPLY NATURAL GAS

TO

ASTERN PIPE LINE COMPANY

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[7179]

Exhibit No. 14-A

Diagram of certain pipe lines and facilities in and around Phillips Petroleum Company's Sneed Plant.

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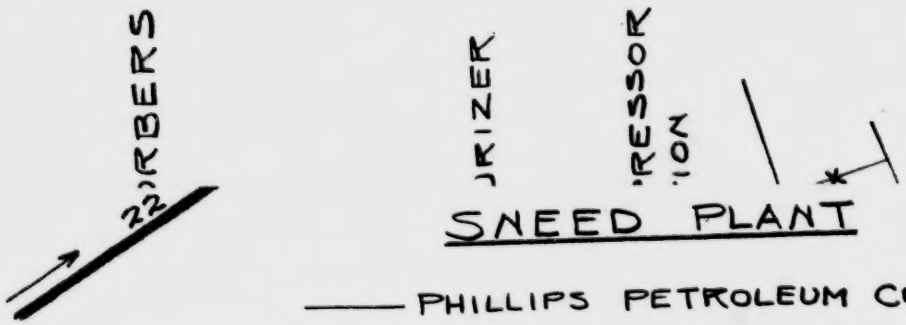
MAP NO. 3A



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[7180]

Exhibit No. 14-B

Revision of Exhibit No. 14, which is a diagram of pipe line facilities used to supply natural gas to Panhandle Eastern Pipe Line Company at Sneed Plant, Texas, and to El Paso Natural Gas Company at Dumas Plant, Texas.

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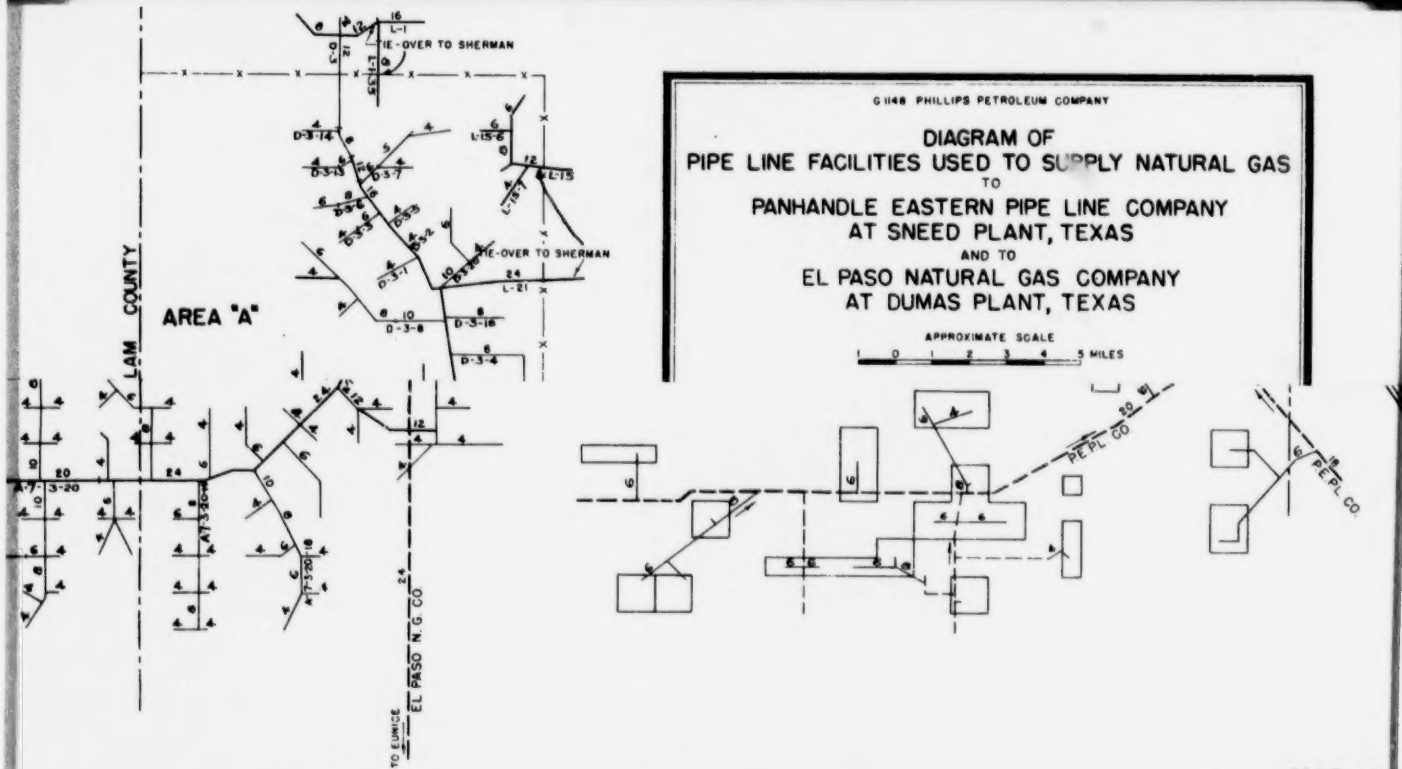

[7182]

Exhibit No. 15-A

Revision of Exhibit No. 15, which is a diagram of pipe line facilities used to supply natural gas to Independent Natural Gas Company and Northern Natural Gas Company.

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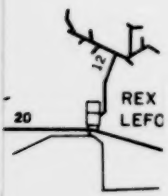

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[7189]

Exhibit No. 18

March 14, 1947

Increasing Price of Gas to
Michigan-Wisconsin Pipe Line
Company
File: 2-Ri-133-47

Mr. Geo. P. Bunn
Office

Dear Sir:

Your attention is called to the fact that our contract with Michigan-Wisconsin for the prices of gas per M.C.F. delivered to it by five year periods, are as follows:

First	5¢
Second	5.7¢
Third	6.4¢
Fourth	7.4¢
Fifth	8.4¢
Sixth	9.4¢

No other gas sales contract, to my knowledge, in either the Hugoton or the Panhandle Field provides for a stated price after fifteen years, and the weighted average during the first fifteen years approximates our sales price to Michigan-Wisconsin with the exception of Hagy, Harrington and Marsh with natural gas pipe line company, said prices by five year periods being six, seven, and eight cents per M.C.F. with average of the field thereafter. In other words our contract is the only one which provides a definite price for upward revision after fifteen years, and the inflation clause is based upon an index of wholesale prices of 104. Mr.

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Biddison, Mr. Hiatt, and myself have conferred at considerable length as to the procedure Phillips should follow to get more for its gas than in the Michigan-Wisconsin contract. We conferred briefly with Mr. Emery, and more particularly on the legal phase with Messrs. Hummer and Hudson.

Our discussion is summarized in the memorandum prepared by Mr. Allen B. Hiatt outlined as follows:

1. Need for Michigan-Wisconsin to increase prices paid to Phillips.
2. Reasons for Phillips to get more for its gas.
3. Rights of cancellation and keeping contract in force.
4. Possibility of increasing field prices and city gate rates as necessary without destroying feasibility of project.
5. Result of renegotiating contract to increase price, either with or without the additions of reserves before operation of the line is commenced.
6. Negotiations with producers under Phillips' contract for increases in prices.

[7190]

7. Availability of additional reserves.
8. Possibility of a certificate to Michigan - Wisconsin under a new proceeding before the Federal Power Commission.
9. Wait until pipe line starts operation to renegotiate prices.

10. Contract with Panhandle Eastern.

In order to receive a greater price for gas from our reserves dedicated to Michigan-Wisconsin, three courses are suggested.

1. Dedicate more reserves (Peerless, Cabot and others) to the Michigan-Wisconsin project, obtain consent of four producing companies now under contract to sell gas to Phillips to stay with the project, and hazard the success of a new certificate case with the present commission.

2. Do nothing until it may become apparent that Michigan-Wisconsin cannot meet the gas delivery date east of the Missouri River by January 1, 1949.

3. Approach Panhandle Eastern Pipe Line Company with the suggestion that subject to Phillips not delivering any gas under its contract with Michigan-Wisconsin Pipe Line Company, Phillips will sell negotiated volumes to Panhandle at prices by five year periods of six, seven, eight, nine, and ten cents per M.C.F.

I am of the opinion that top management negotiations between Phillips and Michigan-Wisconsin should be reviewed before making a definite recommendation. However, if it is decided to not pursue my first suggestion, I would recommend that we approach Panhandle Eastern as suggested in 3.

Very truly yours,

ORIGINAL SIGNED BY
A. M. RIPPEL

A. M. Rippel

AMR:as

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cc: Members of Executive Committee
R. F. Hamilton
R. B. F. Hummer (r) H. K. Hudson
W. G. Hiatt
S. S. Learned
B. F. Stradley
Allen B. Hiatt (r) P. McDonald Biddison

[7191]

Mich. Wisc. Gen. Prop. Deals— March 14, 1947

MEMORANDUM

Re: Possibilities of Increasing Price of Gas from Phillips' Acreage Dedicated to Michigan-Wisconsin Pipe Line Company

By Allen B. Hiatt

This matter has been the subject of discussion on numerous occasions by Messrs. Biddison, Rippel, and me, and on one occasion with Mr. Don Emery and on two occasions with Messrs. Hummer and Hudson, of the Legal Department, with Mr. Bunn in attendance at one of the two latter meetings.

Our discussions have developed the following approaches to accomplishment of the objective:

1. Increase price now.
2. Agree with Michigan-Wisconsin now that prices will be increased after the line is placed in operation.
3. Wait until line is placed in operation, then increase prices.

4. Contract now with Panhandle Eastern Pipe Line Company for sale of gas if and in the event the Michigan-Wisconsin project fails to materialize.

Need for Michigan-Wisconsin to Increase Prices Paid to Phillips

1. *To keep contract in force.* Phillips has two possible rights to cancel; (a) if construction is not commenced on or before March 1, 1948, and (b) if acceptance of gas for delivery east of the Missouri River is not commenced on or before January 1, 1949.

2. *To eliminate payment for minimum.* Michigan-Wisconsin is required to take or pay for a minimum of 132,000 Mcf average per day from July 1, 1949 to July 1, 1950, but has until April 1, 1951 to take deficiencies (over required takes at that time) before payment for minimum not taken.

3. *To add reserves.* The present reserves are inadequate for further expansion of their facilities beyond a single line and are believed by some to be inadequate for expansion of the proposed system beyond the initial step. It may be that further examination of the present reserves, in connection with financing, will prove them inadequate for financial stability. The deliverability will not permit full line load beyond possibly twenty years.

4. *To eliminate maximum obligation.* Michigan-Wisconsin is now obligated to take all of their requirements up to 343,000 Mcf per day from Phillips. This will prevent the economic looping of the line since 343,000 Mcf at 100% load factor will have to come from Phillips and only the excess maximum and variations in daily takes over 343,000 Mcf can be taken from another supplier, whose reserves must be obtained to support the looping.

Reasons for Phillips to Get More for its Gas

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Reasons for Phillips to Get More for its Gas

1. *Advanced Field Prices.* The price for gas under recent contracts has materially increased over the prices of December 11, 1945. Royalty rates and rates paid to the four producers are too far out of line with rates now being obtained by other producers and royalty owners. This holds whether reserves to Michigan-Wisconsin are increased or not.

2. *Effect of Adding Reserves.* Additional reserves will bring about lower takes from Phillips and other producer's wells in supplying the same market and this will reduce current income. Spreading the market over a larger area will entail $3,000,000 additional investment for gathering facilities and added gathering cost per unit of volume.

Rights of Cancellation and Keeping Contracts in Force

Under freedom of action by Michigan-Wisconsin the requirement to begin construction by March 1, 1946 appears to be attainable since a compressor station or river crossing, either of which would constitute actual physical construction, could be commenced and built independent of pipe deliveries for the main line. Also the present information on pipe delivery indicates that deliveries may be obtained, commencing in the second quarter of 1948, which would permit the construction of some 500 miles of line required to serve Maryville, Missouri east of the Missouri River by January 1, 1949. If the two above conditions are fulfilled, the requirement to take between July 1, 1949 and July 1, 1950, or pay for on April 1, 1951, an average of 132,000 Mcf per day, does not appear as a handicap to Michigan-Wisconsin.

However, we have been advised by the Legal Department on October 9, 1946 (letter Hudson to Rippel) and in recent discussions that there is a very good probability that the appeal proceedings before the Circuit Court of Appeals and the Supreme Court will not be adjudicated before the fall or latter part of 1948. With favorable speed, however, this matter might be settled by the fall of 1947. In the present status of the proceedings this date is not predictable within the limits set. Should an adjudication by the courts hold up the financing and construction, and should time intervene till it becomes impossible or at least unlikely to obtain final adjudication by July 1, 1948, the probability of Michigan-Wisconsin being able to commence the acceptance of gas east of the Missouri River by January 1, 1949 becomes remote. This fact may be ascertained by the spring of 1948, in which event and at which time Phillips could approach Michigan-Wisconsin and offer relief or Michigan-Wisconsin may approach Phillips and ask for relief. The contract will not face real probability of termination on January 1, 1949 until July 1, 1948.

Possibility of Increasing Field Prices and City Gate Rates as Necessary Without Destroying Feasibility of Project.

Two trial schedules of field prices have been tested against the pipe line earnings. Each of these started at 7¢ @ 14.65 psia or 7.84¢ @ 16.4 psia with one-half cent increases each five year period through the first fifteen years. The first increased 1¢ each five years after fifteen and the second increased only 1/2¢ each five years. These rates permit the establishment of a city gate rate which leaves the project financially sound and the rates

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competitive and in line with those now offered by Panhandle Eastern. The average rates for firm gas delivered in Michigan are 18.85 , 18.22¢, 17.82¢, 17.55¢, and 30.65¢ for the first five years, and if the 27 billion of interruptible is still sold as firm in the 5th year the average rate becomes 21.95¢ for that year instead of 30.65¢. The average present rate of Panhandle for firm gas delivered to the city of Detroit is 22.82¢ per Mcf. The average firm rate of Natural Gas Pipe Line Company is 19.78¢ and of Northern Natural is 23.77¢.

Benefits to Phillips of the two field price schedules described above were set forth in my letter of February 24 (File 1-Ri-42-47).

Result of Renegotiating Contract to Increase Price, Either with or without the Additions of Reserves, Before Operation of the Line is Commenced.

The city gate rates of Michigan-Wisconsin Pipe Line Company proposed to the Federal Power Commission were not approved. The amount of revenue was apparently adequate, but the form of rate was objectionable and the Commission imposed as a condition on Michigan-Wisconsin's certificate the filing of a revised rate schedule. A new city gate rate schedule, embodying a demand charge, which will permit an increase in field prices for gas and under which the pipe line can be financed readily can be devised in such a way as to bring about small increases in revenues and average cost of gas at the city gates in the first five years. This type of rate schedule will produce earnings after five years which would justify a reduction in the city gate rate.

It has been suggested that Michigan-Wisconsin rates be revised and our contract be revised for higher field

prices and that this situation be presented informally to the Federal Power Commission. With the three to two decision on the original certificate it seems unlikely that approval could be obtained in this manner. Even if the Commission had been unanimous in its decision we are advised by the Legal Department that the Commission would not uphold its responsibility to the public in granting approval of such an increase without a hearing since these are factors which governed its findings in the original certificate application hearings. Assuming that approval of the Commission could be obtained informally without hearing, it is the Legal Department's view that knowledge of the increase will be brought to the attention of the court (Circuit and/or Supreme) and inasmuch as this would be an alteration of the facts on which the Commission granted the Certificate the courts would remand the matter to the Commission for further hearing.

It is the view of the Legal Department that any binding commitment by Michigan-Wisconsin, made at any time before the commencement of operation of the pipe line, would bring about a new certificate hearing and a suspension of the present certificate.

Negotiations with Producers under Phillips' Contract for Increases in Prices

Should it be desired to renegotiate at this time with Michigan-Wisconsin for increased prices we should have the producers along with us since a new contract will result in a new hearing and revoking of the certificate now issued. The Legal Department advise that to approach the producers at this time with a view to getting higher prices for our gas and their gas will neither place

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liability on Phillips nor jeopardize our position with respect to the present contracts.

Availability of Additional Reserves

The Peerless Oil and Gas Company have approximately 87,320 acres adjacent to our acreage in Texas County, Oklahoma, which constitute a reserve of 0.683 trillion cubic feet. This gas is now under contract to Mid-Continent Gas Transmission Company, which is controlled by Peerless and which is now prosecuting an application before the Federal Power Commission. They probably would welcome the opportunity to drop this project and go along with us.

Cabot Carbon Company has approximately 17,760 acres in Texas County, which constitute a reserve of approximately 0.136 trillion cubic feet. This gas is now going to a channel carbon black plant, the future of which is not certain. They may be induced to go along with us.

There is sufficient acreage owned by miscellaneous operators interspersed in the Peerless-Cabot area so that a total of 1 trillion cubic feet of additional reserves could be obtained.

These companies have not been approached relative to this matter. With the acreage now under contract and the above described acreage, Phillips could offer Michigan-Wisconsin a reserve of 5 trillion cubic feet.

If Michigan-Wisconsin is ever to obtain additional reserves in the Hugoton Field it should do it now since the uncontracted acreage in this field is rapidly becoming nonexistent.

Possibility of a Certificate to Michigan-Wisconsin Under a New Proceeding Before the Federal Power Commission

Panhandle Eastern at the time of the Michigan-Wisconsin hearing was offering to expand its facilities and to furnish the same service to Michigan as was Michigan-Wisconsin. Panhandle Eastern, on March 5, 1947, filed a certificate application with the Federal Power Commission requesting authority to construct and operate the second portion of their third line. Any rehearing of Michigan-Wisconsin's application would more than likely be consolidated with Panhandle Eastern's new application and Panhandle might even amend their present application to provide for the complete third line. All of this would undoubtedly lessen the comparative showing to be made by Michigan-Wisconsin.

Wait Until Pipe Line Starts Operation to Renegotiate Prices

It was agreed by those in session that the only way to proceed on a price increase without jeopardizing Michigan-Wisconsin's certificate was to wait until the line was in operation. However, the increase would then depend upon approval of the price by the Federal Power Commission as far as inclusion as an allowable expense in setting Michigan-Wisconsin's rates and as far as any increase in Michigan-Wisconsin's rates would be required. This course of action does not provide added reserves for Michigan-Wisconsin at this time, and

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it is not at all certain that such reserves would be available after Michigan-Wisconsin commences operation.

Contract with Panhandle Eastern

The Legal Department has expressed the opinion that so long as everything is open and above board we could

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contract at this time with Panhandle Eastern for the sale of gas from our acreage after and in the event that the Michigan-Wisconsin project fails to materialize. It is felt, however, that such action would almost certainly in itself kill the Michigan-Wisconsin project. Thus if we could contract with Panhandle Eastern for higher prices than under the Michigan-Wisconsin contract and also improve some of our other contracts with Panhandle, this course has considerable merit, particularly if there is any indication that Michigan-Wisconsin will not be able to go forward anyway.

[7196]

Exhibit No. 19

[*Note: This exhibit was rejected by the Examiner at record 2355 and was not received in evidence. An offer of proof was made on page 2357-58 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin. The Attachments are omitted.*]

cc: F. E. Rice
C. W. Binckley
G. P. Bunn
O. F. Grover
H. H. Jones
H. R. Legatski
W. F. Matheny
D. L. Mayer
G. W. McCullough
A. F. Roth
R. B. Stewart
L. G. Wienecke

A. B. HIATT

February 2, 1946

Financial Analysis of
Michigan-Wisconsin Pipe
Line Company.
File: 1-Te-190-46

Mr. A. M. Rippel
Office

Dear Sir:

We have completed a financial analysis of the proposed sale of residue gas from the Hugoton Field in Dallas, Sherman and Hansford Counties, Texas, and Texas County, Oklahoma, to Michigan-Wisconsin Pipe Line Company.

Information used in this analysis was obtained from members of the Gas Division, Process and Design Section, Gasoline Construction Section, Production Department, Tax, Insurance and Claims Department, Comptroller's Department, Economics Department and others.

Premises for this study were as follows:

1. *Volume of Residue Sale.* Initial residue sale of 142,100 MCFD at 14.735 in 1948, increasing to 314,600 MCFD maximum in 1952. Maximum delivery for any 24 hours, 343 million cubic feet.

2. *Source of Gas.*

Phillips:	445,880	acres in Dallas, Sherman and Hansford Counties, Texas and Texas County, Oklahoma.
Purchased Gas From:		
Magnolia Petroleum Company	25,000	acres in Sherman and Hansford Counties Texas.
Skelly Oil Company	46,548	acres in Sherman and Hansford Counties, Texas.

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Stanolind Oil and Gas Company	118,000	acres in Sherman and Hansford Counties, Texas.
United Producing Company	12,280	acres in Sherman County, Texas.

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Mr. A. M. Rippel

Page 2
1-Te-190-46

3. *Reserves.* Reserves from Phillips' acreage plus acreage supporting purchased gas, 4.109 trillion cubic feet at 14.735 psia.

4. *Price of Residue Gas.* The residue sales price to Michigan-Wisconsin Pipe Line Company is as follows:

* 1st 5-year period.....5¢/MCF @ 16.4 psia.
2nd 5-year period.....5.7¢/MCF.
3rd 5-year period.....6.4¢/MCF.
** 4th 5-year period.....7.4¢/MCF.
** 5th 5-year period.....8.4¢/MCF.
** 6th 5-year period.....9.4¢/MCF.

* After the time of first delivery of gas.

** Contract calls for these prices or the weighted average price, considering pressure, being paid for gas sold and delivered to all gas transmission companies from the Panhandle Field and the Hugoton Field. (Above prices were used.)

5. *Price of Gasoline.* 26-70 priced at 3.0¢/gallon and excess butanes at 2.0¢ per gallon.

6. *Well Drilling Costs.* Well drilling costs estimated at $31,000, of which $4,600 was the tangible cost.

7. *Gasoline Plant and Treater Operating Expenses.* These expenses were estimated based on the plant and treater for Michigan-Wisconsin being located in the same plant yard with the present Hansford Plant.

8. *Payment to Michigan-Wisconsin Pipe Line Company for Boosting Shrinkage Volume.* Gasoline plant constructed and operated to receive gas from Michigan-Wisconsin's compressor station at the operating pressure of the pipe line not to exceed 925 psig. Payment made to Michigan-Wisconsin Pipe Line Company for boosting the shrinkage volume at 1¢ per MCF.

9. *Royalty.* Royalty payments were estimated at 1/8 of value of gas at wellheads, except on gas production from Bivins Ranch lease and acreage obtained from Cabot. Bivins Ranch royalty was estimated at 1/8 of the sales value of the gas with a minimum of 3/4¢ per thousand, plus 1/16 of the gross value of the liquid products sold. An overriding royalty on the gas produced from the Cabot acreage of 1/4 of 7/8 was used.

   Value of gas at wellhead for royalty purposes was evaluated using Michigan-Wisconsin sales prices.

10. *Gross Production Tax.*

1948-49	5.2% of gross working interest income to Phillips.
1950-55	10.0% of gross working interest income to Phillips.
1956-77	17.5% of gross working interest income to Phillips.

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Gross working interest income arrived at by evaluating gas at mouth of well at prices which Phillips is to pay outside companies for gas as set forth in the Michigan-Wisconsin Contract purchase exhibits, less royalty as previously outlined.

11. *Ad Valorem Tax.* Ad valorem tax on leases was estimated at $1,000 per year per well when the daily average gas sales per well was 1,000 MCF or more. When the average sale was less than 1,000 MCFD per well, $1.00 per year per MCFD was used.

12. *Federal Income Tax.* Federal Income tax estimated to be as follows:

1948	35%
1949-53	30%
1954-77	20%

13. *Depletion of Leasehold.* On unit of production basis. Gross working interest income at wellhead evaluated at prices which Phillips is to pay outside companies for gas as set forth in the Michigan-Wisconsin contract purchase exhibits, less royalty as previously outlined.

14. *Depreciation.* The gasoline plant and treater was depreciated on a 30-year basis with 6% net salvage value, gathering system on a 30-year basis with 10% salvage value, tangible well equipment on unit of production basis, and booster stations on 20-year rate at 20% salvage.

Attached are seven schedules showing the following:*

Schedule I	Investment.
Schedule II	Annual Gross Income.
Schedule III	Operating Expense and Operating Income.
Schedule IV	Tax Deductions, Federal Income Tax, and Operating Income after Federal Income Tax.
Schedule V	Years to Payout and Average Annual Rate of Return.
Schedule VI (A & B)	Comparison of Michigan-Wisconsin Gas Deal vs. American Gas Deal.

The comparison between the Michigan-Wisconsin Deal and American Gas Deal is not presented to indicate that a choice may be made between the two deals, but is presented merely for information concerning the similarity of the projects.

Very truly yours,

ROY M. TEEL
Roy M. Teel

MWB:RMT:dw
Enclosures-7

*[Note: Schedules, R-7199–7205, are omitted]

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[7206]

Exhibit No. 20

[Note: This exhibit was rejected by the Examiner at record 2355 and not received in evidence. An offer of proof was made on page 2357-58 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin. The attachments are omitted.]

August 20, 1948

Earnings from Sales of Gas to Michigan-Wisconsin Pipe Line Company.

File: 1-Hi-201-48

Mr. Leroy Culbertson
Office

Dear Sir:

On August 9, 1948, Phillips Petroleum Company entered into an agreement with Michigan-Wisconsin Pipe Line Company amending a contract between the respective companies dated December 11, 1945, as heretofore amended, bringing about certain changes, including the following:

1. Extension of date by which Michigan-Wisconsin must begin receipt of gas from Phillips from January 1, 1949 to July 1, 1949;
2. Deferring the minimum purchase obligations for a period of six months;
3. Changing the base prices in the contract to 7½¢ per Mcf during the first five years, increasing 1¢ per Mcf for each five years; and

4. Provide for escalation in proportion to the increase in Michigan-Wisconsin Pipe Line Company's sales rates in excess of 140% of the rates originally provided in their sales contracts with distributing companies.

In order to evaluate this amendment our division has prepared figures based on our estimates as to the commencement of receipts of gas by Michigan-Wisconsin, the volumes to be taken during various periods of time, and the number of wells to be drilled in order to supply Michigan-Wisconsin Pipe Line Company's requirements. On February 2, 1946, file 1-Te-190-46, shortly after execution of the original contract with Michigan-Wisconsin Pipe Line Company, Mr. Teel submitted to Mr. Rippel a financial analysis of the Michigan-Wisconsin Pipe Line Company project, which reflected an ultimate 30-year investment of $44,544,800 and a net operating income, after depreciation and taxes, of $67,-241,700. Since that date, due to the increased costs of labor and materials we estimate that our investment will be $59,382,000 and our net income, assuming the same product prices without escalation of the gas prices, will be $58,651,-551. Thus on the basis of these figures our net income would have decreased by $8,590,200; however, we believe it is reasonable to assume that a conservative expectation of liquid product prices for the next thirty years will be more nearly 6¢ per gallon for 26-70 gasoline and 3½¢ per gallon for LPG products rather than the 3¢ and 2¢ used in the study of February, 1946. Using these new liquid product prices we

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obtain an additional net income of $35,180,000 which would more than offset the deficit of $8,590,000. While the average sales rates of Michigan-Wisconsin Pipe Line Company, on which escalation of our gas prices is to be based, are unascertainable at this time we estimate that the rates which they initially put into effect will be 158% of those in their original gas sales contracts and, on the basis of this estimated escalation, the escalation of our gas prices as provided in the contract prior to the recent amendment would have produced an additional net income of $53,690,500. The August 9 amendment further increases the net income received by reason of escalated gas prices an additional $3,125,000 if the annual index of wholesale prices of all commodies remains in excess of 134 points based on 1926 prices at 100 points and if 26-70 and LPG prices remain in the range of 6¢ and 3½¢ it appears we will have an increased net income of $91,995,800 by reason of the escalation and increased gasoline market which will exceed our loss due to increased investment and operating expenses by some $83,405,600.

The August 9 amendment appears to have a net income value compared to the contract prior to amendment of $3,125,300 with 158% escalation and $53,541,909 with no escalation over a 30-year life.

The average annual rate of return as reflected by your February, 1946 study was 10.75%. The average annual rate of return before August 9 amendment, assuming no increase in liquid product value and no escalation on gas prices, had declined to 9.5% because of our increased investment and operating expenses and assuming 6¢ for 26-70 and 3½¢ for LPG and prices escalated 158% the average annual rate of return is 13.01%. After the August 9 amendment, assuming 26-70 price of 6¢, LPG at 3½¢, and 158% escalation in the Michigan-Wisconsin Pipe Line Company's rates the average annual rate of return appears to be 13.76%.

In order that this department may advise the Operating and Executive Committees of the value of the August 9 amendment to Phillips Petroleum Company, I would appreciate your reviewing the computations by this division and verifying the reasonableness of our assumptions with regard to liquid products, operating expenses, and investment.

Very truly yours,
/s/ ALLAN B. HIATT
Allan B. Hiatt.

ABH:d

cc: F. E. Rice
G. P. Bunn
A. M. Rippel
Dan L. Mayer
D. F. Mayfield
R. M. Teel

[Note: Work sheets, R. 7208-7215 omitted.]

[7216]

Exhibit No. 21

[Note: This exhibit was rejected by the Examiner at record 2355 and not received in evidence. An offer of proof was made on page 2357-58 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.]

MINUTES OF ADJOURNED REGULAR MEETING
OF BOARD OF DIRECTORS OF
PHILLIPS PETROLEUM COMPANY

September 27, 1948

An adjourned regular meeting of the Board of Directors of Phillips Petroleum Company was held at the Bankers

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Club, 120 Broadway, New York, New York, at 12:30 p. m. Eastern Standard Time on the 27th day of September, 1948.

The following Directors, constituting a quorum, were present:

Mr. Frank Phillips
Mr. K. S. Adams
Mr. H.M. Addinsell
Mr. F. W. Begrisch
Mr. E. E. duPont
Mr. J. L. Johnston
Mr. Ch. A. Lemp
Mr. Don Emery

Mr. R. C. Jopling and W. G. Angel also were in attendance.

Mr. Frank Phillips, Chairman, presided as Chairman, and Mr. B. F. Stradley, Secretary, recorded the minutes of the meeting.

The minutes of a regular meeting of the Board of Directors held on September 13, 1948 in Bartlesville, Oklahoma, were reviewed, and, on motion of Mr. J. L. Johnston, seconded by Mr. H. M. Addinsell, were unanimously approved. Resume of said minutes is included herein as a part of these minutes as follows:

[7217]

As a matter of information, the President reported on the results of negotiation of an amendment to the Gas Sales Contract with Michigan Wisconsin Pipe Line Company, explaining that the price of gas had been raised from 5¢ to 8-1/2¢ per thousand cubic feet, with a 1¢ increase

[7218]

per thousand cubic feet each five years, together with an escalation clause. Additional acreage in the Panhandle gas field, comprising 40,000 to 50,000 acres have been dedicated under the contract, and present estimates indicate these price increases will result in increased income to the Company of between $15,000,000 and $20,000,000 over the life of the contract.

[7266]

Exhibit No. 28

PROSPECTUS

1,007,517 Shares

PHILLIPS PETROLEUM COMPANY

Common Stock

(No Par Value)

These securities have not been approved or disapproved by the Securities and Exchange Commission nor has the Commission passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

As more fully set forth under "Offering to Stockholders" herein, the Company is issuing to its Common Stockholders of record at the close of business on November 18, 1947, transferable Subscription Warrants (herein called

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the "Subscription Warrants") entitling the holders thereof to subscribe, at $49.00 per share, prior to 3:00 P. M. (Eastern Standard Time) on December 3, 1947, for the Common Stock offered hereby at the rate of one share of such stock for each five shares of Common Stock held of record on such record date.

	Price to Public (1)	*Underwriting Discounts or Commissions (2)*	*Proceeds to Company (3)*
Per Unit..	$49.00	$1.1025	$47.8975
Total.....	$49,368,333	$1,110,787	$48,257,546

(1) The Price to Public stated above is the price payable upon exercise of Subscription Warrants.

(2) Under the terms and conditions of the Underwriting Agreement described herein, the several Underwriters named herein have agreed to purchase from the Company, at the Price to Public set forth above, such of the shares of Common Stock offered to Stockholders as are not purchased upon exercise of Subscription Warrants. As compensation for said underwriting, the Company has agreed to pay the Underwriters an aggregate amount equal to $1.1025 per share in respect of the entire number of shares so offered to Stockholders. As a result of transactions set forth below the several Underwriters may realize profits or losses independent of the underwriting commissions stated above. Reference is also made to "Underwriting" herein for information with respect to certain indemnification agreements between the Company and the several Underwriters.

(3) The Proceeds to Company are stated before deduction of expenses payable by the Company estimated at $310,000.

Prior to the expiration of the Subscription Warrants, the several Underwriters may offer and sell shares of the unsubscribed Common Stock and of Common Stock purchased or to be purchased by them through the exercise of Warrants, either firm or subject to subscription through the exercise of Subscription Warrants, at a price which may vary each 24-hour period commencing 3:00 P. M., Eastern Standard Time, on November 18, 1947, but which it is intended shall not vary within any such 24-hour period. Such price shall not be less than the Price to Public set forth above nor more than the last sale price of the Common Stock on the New York Stock Exchange in the last preceding 24-hour period in which the Common Stock was sold on said Exchange. After the expiration of the Subscription Warrants, the several Underwriters may or may not, as they may determine, make one or more public offerings of shares of the unsubscribed Common Stock and of Common Stock purchased by them through the exercise of Subscription Warrant. The price or prices of any such offerings have not been fixed as of the effective date of the Registration Statement but will be determined as set forth under "Offering by Underwriters". With respect to such sales by the Underwriters, the Underwriters may realize profits or losses independent of the underwriting commissions stated above, such profits or losses being dependent upon the number of shares acquired by them and the prices at which such shares are sold by them.

THE FIRST BOSTON CORPORATION

In connection with this offering, the Underwriters may effect transactions which stabilize or maintain the market price of the common stock and the subscription warrants of

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the Company at a level above that which might otherwise prevail in the open market. Such transactions may be effected on the New York Stock Exchange and the San Francisco Stock Exchange and in respect of common stock in the over-the-counter market. Such stabilizing, if commenced, may be discontinued at any time. See also "Offering by Underwriters" herein.

The date of issue of this Prospectus is November 18, 1947.

3-1

[7267]

CONCERNING THE REGISTRATION STATEMENT

Phillips Petroleum Company (herein sometimes called the "Company") has filed with the Securities and Exchange Commission, Philadelphia, Pa., a Registration Statement under the Securities Act of 1933 with respect to shares of Common Stock offered hereby. This Prospectus omits certain information contained in the Registration Statement on file with the Securities and Exchange Commission. The information omitted may be obtained from the Commission's principal office at Philadelphia, Pa., upon payment of the fee prescribed by the rules and regulations of the Commission.

3-2

[7268]

BUSINESS

The business conducted by the Company and the integrated character thereof includes the following:

3-3

[7269]

(2) The gathering by pipe line and the transportation by pipe line, tank cars, motor trucks and water transport of crude oil, distillate, natural gas, natural gasoline and other natural gas liquids, produced or purchased, for processing and/or delivery to others.

3-4

[7270]

DEPARTMENTAL OPERATIONS AND DEVELOPMENT

3-5

[7271]

NATURAL GAS AND GASOLINE

The major outlets for natural gas sold by the Company are sales to natural gas pipe line companies and to operators of carbon black plants located near the Company's supplies of such gas. In order to place its natural gas supplies in long term, higher priced markets the Company has negotiated sales contracts with major natural gas pipe line companies including Northern Natural Gas Company, El Paso Natural Gas Company, Panhandle Eastern Pipe Line Company, Cities Service Gas Company and United Gas Pipe Line Company for long terms and at contract prices which start at levels higher than the prices previously received from carbon black manufacturers and most of which increase at intervals in the future. Deliveries are presently being made under all of the above-mentioned contracts, with the exception of one contract with El Paso Natural Gas Company, under which deliveries are

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expected to commence within a few months, and which will provide a long term outlet for natural gas from the "Permian Basin Area" of Southwestern Texas and Southeastern

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New Mexico where much residue gas from casinghead gas had been vented to the air. The Company has also entered into a sales contract with Michigan-Wisconsin Pipe Line Company providing for the sale of natural gas from an area in the Hugoton Field of Texas and Oklahoma which has been partially developed by the Company but from which little gas has been marketed. The performance of this contract is dependent upon the construction by Michigan-Wisconsin Pipe Line Company of its proposed pipe line, a conditional certificate covering which has been issued by the Federal Power Commission.

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GOVERNMENTAL REGULATION

Reference is made to the subheading "Natural Gas and Natural Gasoline Operations" herein relative to markets for gas sold by the Company and prices received for such gas, and reference is also made to contract for the sale of natural gas included in the contracts,

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copies of which are incorporated herein as Exhibit 15 hereto. Of the volume of 990,000,000 cubic feet of natural gas

per day being sold by the Company at the end of 1946 and the daily average volume of 1,100,000,000 cubic feet of natural gas expected to be sold during the calendar year 1947, approximately thirty per cent was and will be sold to purchasers which transport and sell the gas in interstate commerce; and it is anticipated that, during the next few years, increasingly greater proportions of the total volumes of gas sold by the Company and its subsidiaries will be sold to purchasers which transport and sell the gas in interstate commerce. Although such sales and the transportation of natural gas antecedent thereto constitute operations by the Company as a "natural gas company" under the Natural Gas Act, and, as such, are subject to the Federal Power Commission's jurisdiction, unless the exercise of such jurisdiction constitutes an interference with state regulation of production and gathering, the Commission with Commissioner Draper dissenting in a declaration made on the 15th day of August, 1947, disclaimed the intention to exercise jurisdiction over such sales if made at arm's length, that is, sales made as an incident to the producing or gathering operation by a producer or gatherer of gas to a non-affiliate (Order No. 139, Docket No. R-106). The House of Representatives of the 80th Congress passed a Bill denying rate regulatory jurisdiction to the Federal Power Commission over such sales. In the Senate the Bill is now pending upon hearings before the Committee on Interstate and Foreign Commerce.

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PHILLIPS PETROLEUM COMPANY

K. S. ADAMS
President.

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Exhibit No. 29

HISTORY AND BUSINESS

Since Phillips Petroleum Company and its subsidiary companies are primarily operating companies, the word "Company" is used in this Prospectus to include Phillips Petroleum Company and its subsidiaries consolidated except where otherwise indicated. Phillips Petroleum Company has only three unconsolidated subsidiaries. These are not considered of material importance in comparison with total assets and business of the Company.

Phillips Petroleum Company, which was founded by Frank Phillips and L. E. Phillips, was incorporated in Delaware on June 13, 1917. Its principal executive offices are located at 80 Broadway, New York 5, N. Y., and Phillips Building, Bartlesville, Oklahoma.

As presently constituted, the Company comprises one of the larger integrated units in the petroleum industry, owning in the United States: reserves of crude oil, distillate, natural gas, and natural gasoline and other natural gas liquids, in a large number of fields in the Mid-Continent, Illinois, West Texas and New Mexico, Rocky Mountain,

and Gulf Coast areas; natural gasoline plants, crude oil refineries, chemical plants and furnace carbon black plants; crude oil pipe lines and refined product pipe lines; and marketing outlets throughout the Central United States, the Rocky Mountain area and adjacent areas. The Company also owns crude oil reserves in Venezuela, and owns oil and gas leases in Canada where it is now conducting exploratory operations. Based on total consolidated balance sheet assets as of December 31, 1949, the Company ranked ninth among United States oil companies. The integrated business conducted by the Company is described in more detail below:

(1) The acquisition and development of prospective and proved oil and gas leases and lands, and the production and purchase of crude oil, distillates, natural gasoline, natural gas and other derivatives thereof. Such activities are carried on chiefly in the Mid-Continent, West Texas and New Mexico, Rocky Mountain, and Gulf Coast areas of the United States. In recent years oil and gas exploratory and development activities have been extended to certain foreign countries.

(2) The gathering by pipe line and the transportation by pipe line, tank cars, motor trucks, and water transport of crude oil, distillate, natural gasoline and other natural gas liquids, and refined products.

(3) The refining of crude oil and distillate for the production of refined products, including aviation and motor gasoline, automotive and industrial lublicating

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oils and greases, kerosene, household heating oils, diesel fuels and residual fuel oil.

(4) The processing of natural gas for the production of natural gasoline and other natural gas liquids, including the treatment necessary to prepare the natural gas for sale to pipe lines of other companies which transport and distribute natural gas to industrial and household consumer markets.

(5) The production and sale of numerous petroleum chemicals. These consist in part of anhydrous ammonia and nitrogenous fertilizers, including ammonium nitrate, ammonium sulfate, and ammonia solutions; furnace carbon blacks made from oil and sold under the trade names, "Philblack A" and "Philblack O"; pure hydrocarbons for anti-knock reference standards; research grade hydrocarbons; solvents; organic sulfur chemicals; and other specialty chemical products. The Company also produces and sells to the Government butadiene, an ingredient of synthetic rubber.

(6) The marketing of crude oil, natural gas, distillate, and the products thereof, tires and automotive accessories and certain other non-petroleum merchandise. The Company is domesticated in all forty-eight states and the District of Columbia, in substantially all of which some of its products are

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distributed or shipped for sale or for export. To a large extent sales of gasoline and other petroleum products

are made under the Company's trade names, the most important of which is "Phillips 66."

A substantial part of the crude oil, distillate and natural gas produced and purchased by the Company is gathered through its own pipe lines for its own refineries and gasoline plants, and a substantial portion of the Company's natural gasoline, natural gas liquids and refined gasolines is transported through its own and other pipe lines to its own and other terminals throughout its marketing territory.

The principal sources of gross operating revenue for the year 1949 were: refined petroleum products 48.9%; crude oil 24.3%; natural gas liquids 6.7%; aviation gasoline 3.9%; natural gas 4.2%; fertilizer 2.3%; furnace black 2.2%; non-petroleum merchandise 2.7%; and other sales and services 4.8%. The relative contributions of these various sources of revenue to the consolidated net income of the Company bear little or no relation to the breakdown of gross operating revenues in any year. It is estimated, for instance, that the percentage of net income from "natural gas" during 1949 was greater (possibly two or three times) than its percentage of gross operating revenue stated above. Such relative contributions also vary widely from year to year. Such variations result, among many other factors, from changes in sales volume of various products and from fluctuations in prices of raw materials and products and in the relationships existing among such prices. For example, although posted prices for crude oil in the Mid-Continent area have been generally unchanged over the past two years, there have been major increases and/or decreases

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in the selling prices of petroleum products over that period, all of which have resulted in relative changes in the Company's profits from the various phases of its integrated operations.

During the past five years, numerous properties, leases and interests in production have been acquired; oil and gas properties have been developed; transportation facilities have been augmented; refining operations have been increased; and natural gas operations have been greatly expanded. During 1947 producing, refining and marketing operations and properties in the Rocky Mountain area were increased through the acquisition of several companies which have since been liquidated and their assets transferred to the parent company. In December, 1945, properties comprising thirteen liquefied petroleum gas retail districts on the Atlantic Seaboard, which are outside the Central United States marketing territory of the Company, were sold to Surburban Propane Gas Corporation. The Company has a long-term contract to supply liquefied petroleum gas to the purchaser. In the ordinary course of business certain unprofitable oil and gas wells have been abandoned, and non-producing acreage released where the prospects of production appeared remote, and certain other facilities have been retired.

Capital expenditures made during the past five years were as follows: 1945, $61,200,000; 1946, $48,100,000; 1947, $87,900,000; 1948, $139,000,000; 1949, $89,000,000; totalling $425,200,000. The aggregate of such capital expenditures is classified by major activities as follows: oil and gas prop-

erties and wells 57.3%; manufacturing 27.7%; transportation 6%; marketing 4%; and miscellaneous 5%.

DOMESTIC OIL AND GAS PRODUCTION. Production, purchases and sales of crude oil, stated in barrels*, were as follows:

	Gross Production	Net Production	Purchases from Others	Sales to Others	Available for Refining or Storage
1945	59,075,161	34,222,927	30,820,791	38,722,394	26,321,324
1946	58,701,251	33,542,092	29,810,791	35,108,403	28,244,480
1947	65,153,132	34,740,758	28,867,807	30,045,097	33,563,468
1948	81,627,696	39,880,964	49,834,599	34,804,617	54,910,946
1949	83,348,448	35,314,186	54,936,662	43,243,215	47,007,633

* Barrels wherever used in this Prospectus refer to barrels of 42 gallons each.

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In the foregoing tabulation, gross production includes the total production from properties in which the Company had a working interest. Net production is gross production adjusted for outside interests such as partnerships and royalties. The oil purchased from others consists of royalty oil and other interests, some of which are included in gross production shown above, oil purchased under contract and oil bought subject to cancellation by the seller.

The average daily net domestic production of crude oil for the year 1949 was approximately 96,750 barrels as compared with 109,000 in 1948. This reflects the effect of lower crude oil production allowables which prevailed in most of the oil producing states during the year 1949, particularly in the State of Texas where a large portion of the Company's production is located. Approximately 90% of the Company's domestic production originates in states which curtailed allowable production during 1949.

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The Company consistently follows the practice of expanding its oil and gas reserves through acquisition of new properties, development of existing properties and carrying out secondary recovery operations such as gas repressuring and water flooding. In recent years the Company has made important exploratory discoveries and field extensions, principally in Oklahoma, Texas, Wyoming, Louisiana, Kansas, New Mexico, Colorado, Mississippi and Illinois. In 1949 the Company and the other leasehold owners formed the North Burbank Unit, embracing 22,000 acres of producing oil properties in Osage County, Oklahoma. This Unit, in which the Company owns a 53.52% interest, will be the largest water flooding operation ever undertaken.

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NATURAL GAS AND NATURAL GASOLINE. The approximate total volumes of natural gas produced from the Company's acreage (including the Company's interest in natural gas processed in cycling plants) and purchased from others during the past five years expressed in Mcf (thousand cubic feet) were as follows:

Year	*Net Gas Produced*	*Gas Purchased**	*Total Gas Volume*
1945.....	248,000,000	257,000,000	505,000,000
1946.....	270.000,000	270,000,000	540,000,000
1947.....	274,000,000	266,000,000	540,000,000
1948.....	276,000,000	268,000,000	544,000,000
1949.....	282,000,000	276,000,000	558,000,000

* Purchased royalty and partnership interests are included herein. Figures do not include certain relatively small quantities purchased from others and used principally for fuel.

The Company, which for years has been one of the largest processors of natural gas, improved its existing facilities and constructed new facilities during the past five years to increase its productive capacity

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and operating efficiency. The volume of natural gas processed and the volumes of various natural gas liquids produced or purchased were as follows:

Year	Gas Processed (a) (Mcf) (1)	Approximate Productions (b) Gallons: Natural Gasoline (26-70 Equivalent) (2)	Approximate Productions (b) Gallons: Other Natural Gas Liquids (3)	Purchases of Products Withdrawn from "Controlled" Reserves (Gallons) (c) (4)
1945	456,000,000	367,000,000	174,000,000	175,000,000
1946	486,000,000	367,000,000	200,000,000	189,000,000
1947	477,000,000	358,000,000	204,000,000	196,000,000
1948	494,000,000	381,000,000	222,000,000	238,000,000
1949	465,000,000	391,000,000	226,000,000	243,000,000

(a) Includes, in addition to Company-owned gas, that portion of gas owned by others from which liquids were extracted by the Company and retained as a processing fee.

(b) Includes, in addition to the liquids produced from Company-owned gas, liquids extracted from gas owned by others and retained as a processing fee. Most of the remaining liquids extracted from gas owned by others are purchased by the Company as produced, and included in column 4.

(c) For definition of "controlled" reserves, see "Reserves" herein.

The natural gasoline and other natural gas liquids extracted from natural gas, together with similar products purchased from other processors, are used by the Company as raw materials and as blending ingredients in the manufacture of motor fuels, aviation fuels, butadiene, liquefied petroleum gas and many other products used or sold.

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The approximate total volume of natural gas sold annually by the Company (not including gas used by the Company) has increased from 289 billion cubic feet in 1945 to 418 billion cubic feet in 1949. This increase has resulted largely from increased sales to gas pipe lines, certain of which have been constructed during this period. The Company has long-term sales contracts (most of which contain escalator price clauses as to future deliveries) with several major gas pipe line companies. Contract sales to pipe lines during 1950 are expected to approximate 375 billion cubic feet.

Gas volumes stated under this subcaption for the years 1945 through 1948 are on various pressure bases ranging from 13.45 to 16.7 p.s.i.a. The volumes for 1949 and 1950 are on a pressure base of 14.65 p.s.i.a.

CYCLING OPERATIONS. The Company has partial interests in three cycling plants, located in Louisiana and Texas, which process natural gas supplied by the Company and the other owners. The Company's interest in the volumes of gas processed in these plants and the natural gas liquids recovered therefrom has been as follows, such amounts being in addition to those appearing in the second table under the sub-heading "Natural Gas and Natural Gasoline":

	1945	1946	1947	1948	1949
Gas Processed (Mcf)	12,944,000	13,931,000	14,938,000	14,610,000	14,949,000
Production of Natural Gas Liquids (Gals.)	40,329,000	40,726,000	40,614,000	37,684,000	35,939,000

RESERVES

The following statement of estimates of the Company's reserves of crude oil, distillate, natural gasoline and other natural gas liquids, and natural gas is made upon the authority of an expert, namely, K. E. Beall, a Vice President and Head of the Economics Department of the Company.

March 22, 1950

Board of Directors
Phillips Petroleum Company
Bartlesville, Oklahoma

Gentlemen:

The following are estimates of owned or controlled, proved reserves of Phillips Petroleum Company and Subsidiaries, with which I agree, made under my supervision by Company Engineers.

"Owned reserves", as used herein, are reserves the legal title to which, in the opinion of the Legal Department of the Company, is vested in the Company or vest in the Company upon and by virtue of their lawful production by the Company.

"Controlled reserves", as used herein, are (a) royalty crude oil reserves not "owned" by the Company but producible and customarily sold with "owned reserves", and (b) other reserves of crude oil and reserves of distillate, natural gasoline and other natural gas liquids and natural gas which, in the opinion of

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the Legal Department of the Company are not owned by the Company, as above defined, but which by contract or grant are subject to the Company's purchase and disposition or utilization upon lawful production and delivery by or for another; excluding, however, volumes of reserves acquired by exchanges or reciprocal sales of other volumes of owned or controlled reserves.

On December 31, 1949, proved reserves of crude oil, distillate, natural gasoline and other natural gas liquids producible or recoverable, under presently existing economic conditions and presently known producing and recovery methods, from properties within the United States were 1,247,664,000 barrels and from properties in Venezuela 4,896,000 barrels or a total reserve of 1,252,560,000 barrels. Of this total reserve 72.7% was owned and 27.3% was controlled. Total reserves are further classified as follows: (a) owned crude oil and distillate—667,483,000 barrels of which 563,350,000 barrels were developed and 104,133,000 barrels were undeveloped; (b) controlled crude oil and distillate—206,082,000 barrels; (c) owned natural gasoline and other natural gas liquids—243,820,000 barrels; and (d) controlled natural gasoline and other natural gas liquids—135,175,000 barrels. Although the Company and its subsidiaries own or control crude oil and natural gas liquids reserves producible through secondary recovery projects not presently under successful operation, such reserves have not been included in the above estimates.

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In the above owned developed oil reserve figures are included approximately 56,000,000 barrels estimated as recoverable from the Burbank Field in Oklahoma by means of gas repressuring and water flooding operations, which are considered to be in successful operation at this time.

Also included in the owned developed oil reserve figures are amounts applicable to formations behind the pipe, which have been penetrated by wells completed in deeper formations. Some expense will be necessary in connection with plugging back, perforating the pipe and recompleting the wells in the shallower formation before such reserves are producible.

Of the owned reserves of crude oil and condensate mentioned above, 46% of the developed and 72% of the undeveloped are located in West Texas and in the Chocolate Bayou Field of the Texas Gulf Coast. In these fields the present rate of allowable production is much smaller in proportion to the future reserves than the average for the remainder of the United States, and in many of these fields only a relatively small part of the ultimate reserve has been produced. Proved reserves of natural gas, exclusive of recoverable natural gasoline and other natural gas liquids included above, producible or recoverable under presently existing economic conditions and presently known producing and recovery methods, from properties within the United States, were 15.22 trillion cubic feet at 14.65

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pounds per square inch absolute and 60 degrees Fahrenheit on December 31, 1949, of which 73.9% was owned and 26.1% was controlled. Of the owned natural gas reserves, on December 31, 1949, 77.8% thereof are now dedicated or contracted, and of the natural gas reserves dedicated or contracted 98.8% had the benefit of escalator price clauses as to future deliveries.

Of the Company's total reserves of natural gas, recoverable natural gasoline and other natural gas liquids owned or controlled by the Company, as of December 31, 1949, it is estimated that 95.8% of such reserves of natural gas and 86.4% of such reserves of natural gasoline and other natural gas liquids are located on acreage owned by the Company or acreage under contracts whose terms extend for the respective terms of the oil and gas leases covered by such contracts; 2.3% of such reserves of natural gas and 9.5% of such reserves of natural gasoline and other natural gas liquids are located on acreage under contracts whose terms extend for 20 years or less but more than 5 years; 1.8% of such reserves of natural gas and 3.6% of such reserves of natural gasoline and other natural gas liquids are located on acreage under contracts whose terms extend for five years or less but more than one year; and 0.1% of such reserves of natural gas and 0.5% of such reserves of natural gasoline and other natural gas liquids are located on acreage under contracts whose terms extend for one year or less. In respect of natural gasoline and other natural gas liquids, there is embraced in "acreage under contracts" acreage pro-

ducing natural gas for processing in natural gasoline plants owned and operated by others, the production from which plants is subject to purchase by the Company under gasoline purchase contracts.

The foregoing amounts of estimated reserves do not include any reserves from tidelands leases located in the Gulf of Mexico, the legal status of which is in controversy, or from properties in Canada.

Very truly yours,

K. E. BEALL, *Vice President*
Economics Department
Phillips Petroleum Company

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DESCRIPTION OF PROPERTY

GENERAL. Property, plant and equipment, less reserves for depreciation, depletion and amortization, are reflected at $428,593,776 in the consolidated balance sheet as of December 31, 1949, included herein. This investment is classified as follows: oil and gas properties and wells 48.6%; natural gasoline 14.6%; refining 14.3%; products pipe line 3%; oil pipe line 4.7%; marketing 5.3%; fertilizer 3%; service facilities 4.1%; and all other 2.4%.

The approximate average ages of the Company's investment in the principal classes of depreciable plant and equipment at December 31, 1949, are estimated to be as follows:

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Principal Classes of Depreciable Plant and Equipment	Gross Investment	Approximate Average Age* (Years)
Oil and Gas Production	$117,000,000	5.7
Manufacturing	229,800,000	6.8
Transportation:		
Crude Oil Pipe Lines	25,500,000	4.7
Products Pipe Lines and Terminals	28,900,000	10.6
Marketing	31,900,000	7.3

* Estimated by multiplying (after giving effect to retirements and other dispositions on a first-in, first-out basis) the amount of gross additions in each year by the number of years from June 30 of the year of expenditure to December 31, 1949, and dividing the result by the gross amount of depreciable plant and equipment at December 31, 1949.

The principal properties of the Company are set forth below as of December 31, 1949, giving effect to any substantial changes since that date.

OIL AND GAS PRODUCING PROPERTIES. The Company has a full or partial working interest in 2,544 oil or gas producing properties in the United States, comprising approximately 801,213 developed acres held in determinable fee or under lease or other form of contract employed in the industry. The Company also has in the United States an interest in 6,292,518 gross undeveloped acres. A summary of total gross acreage, developed and undeveloped, and of producing oil or gas wells, is as follows:

State	*Total Acres*	*Producing Wells*
Arkansas	20,832	483
Colorado	22,379	67
Florida	303,646	—
Georgia	170,640	—
Idaho	18,676	—
Illinois	23,908	169

Indiana	1,434	—
Kansas	347,614	1,008
Kentucky	1,231	58
Louisiana	111,225	284
Mississippi	110,120	17
Montana	128,482	299
New Mexico	207,839	139
Oklahoma	634,592	3,775
Oregon	11,193	—
Texas	4,852,860	4,140
Utah	42,402	—
Washington	1,787	—
Wyoming	82,871	169
Total	7,093,731	10,608

In addition, the Company holds rights to acquire blocks of acreage in widely scattered unproved areas, exercisable upon the completion of geological and geophysical explorations and drilling tests.

There are not included in the above-described properties the Company's whole and partial interests in 163,995 gross acres of certain oil and gas leases granted by the States of Louisiana and Texas covering offshore tidelands in the Gulf Coast area. There is pending in the United States Supreme Court a suit to

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determine that title to such tidelands belongs to the United States, and the court has so held with respect to tidelands offshore from the State of California. Accordingly, the Company may be subject to loss of its investment (in-

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cluding development expense) in such leases, estimated at $3,475,000 as of December 31, 1949, and may be liable for the value of oil produced therefrom, amounting to approximately $220,000 which sum is included in the amount shown in the balance sheet under the caption "Deferred Credits".

Thirty-two producing wells are located on the Company's exploitation concessions in Venezuela which aggregate approximately 186,000 acres. Warehouse and maintenance facilities located near the port at Puerto la Cruz are owned in fee, and housing and other field facilities have been constructed.

The Company holds exploration rights on 6,517,971 gross acres in Western Canada including 67,760 acres held by West Edmond Oil Company, a wholly-owned subsidiary, and in addition has oil and gas leases and licenses to drill on 130,634 gross acres.

CRUDE OIL STORAGE FACILITIES. Total crude oil storage capacity is approximately 10,247,000 barrels, all owned except 156,000 barrels of leased storage. This tankage, located in Arkansas, Idaho, Kansas, Montana, Oklahoma, Texas, Utah and Washington, is operated to maintain refinery crude oil supplies independent of variations in current production. Approximately 75% of the storage tanks are located on land held in fee and the remainder on leased land.

NATURAL GASOLINE PLANTS. The Company owns and operates 25 natural gasoline plants: 19 in Texas, 4 in Oklahoma, and 2 in New Mexico. The company also owns a joint interest in 19 plants located in Oklahoma, Texas, Ar-

kansas, New Mexico, and Wyoming, 3 of which are Company operated. Facilities are maintained as part of these plants for producing the grades of natural gasoline and other natural gas liquids required by the Company for blending and for sale. These plants are located on land owned in fee or held under leases, most of which are renewable at the option of the lessee. The Company owns approximately 4,380 miles of gathering, residue, and other gas lines with necessary compressor or booster stations located in Arkansas, Kansas, Oklahoma, Texas, and New Mexico and the Company also owns various pipe lines necessary in connection with the manufacture and sale of natural gasoline. The lines are generally located on land for which rights-ofway are held and the compressor or booster stations are located on lands either held in fee or under lease.

REFINERIES. The Company owns and operates 7 refineries, located and having daily crude oil capacity as follows: Phillips, Texas, 56,000 bbls.; Sweeny, Texas, 45,000 bbls.; Okmulgee, Oklahoma, 8,000 bbls.; Kansas City, Kansas, 50,000 bbls.; Salt Lake City, Utah, 4,200 bbls.; Pocatello, Idaho, 4,500 bbls.; and Spokane, Washington, 5,500 bbls. The Company also owns a 75% interest in and operates a refinery located at Great Falls, Montana, with a daily crude oil capacity of 2,800 bbls. The Company owns a plant for manufacturing lubricating oil components (1,500 barrels daily capacity) with an associated plant for compounding and packaging finished products, located at the Kansas City refinery. The refineries are located on land owned in fee with the exception of the Phillips, Texas, renery which is located on land held under renewable lease. Refining facili-

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ties at Sweeny are served by barge loading and unloading equipmnt on the San Bernard River and a deep water terminal at Freeport, Texas, with connecting pipe lines.

CRUDE OIL PIPE LINES. The Company owns 986 miles of gathering lines and 1,280 miles of trunk lines (including jointly-owned properties, together with necessary pumping stations, working tanks and other equipment. The jointly-owned lines consist of 94 miles of trunk lines and 106 miles of gathering lines in Montana (75% owned) and 20 miles of gathering lines in Oklahoma (50% owned). The

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gathering line systems are located principally in the Panhandle, West Texas, East Texas and Gulf Coast areas of Texas, Central and Eastern Oklahoma, Central and Southeastern Kansas, Cut Bank and Pondera areas of Montana, and Southern Arkansas. The Panhandle and West Texas gathering lines, together with the trunk line from West Texas, supply the Phillips, Texas, refinery. The trunk lines in Oklahoma and Kansas, supplying the Okmulgee and Kansas City refineries, extend from Oklahoma City to Seminole and Okmulgee, Oklahoma, and from Oklahoma City to Kansas City, Kansas, with a branch line extending to Western Kansas. The jointly-owned system in Montana is the principal source of supply for the refinery at Great Falls, Montana. The pipe lines are generally located on land for which rights-of-way are held, pumping stations and necessary tankage being located on lands either held in fee or under lease.

The Company also has a one-third interest in Kaw Pipe Line Company, a common carrier, which is the owner of an extensive system in Western Kansas connected to the Oklahoma-Kansas trunk line of the Company.

The Company presently contemplates the construction jointly with another oil company of 280 miles of 12″ crude oil trunk line extending from near Borger, Texas, to Yale, Oklahoma. The line will have a capacity of 38,000 barrels per day and will cost approximately $7,350,000. It is contemplated that as much as 90% of the construction cost may be financed by long-term debt, but arrangements for such financing have not been made.

PRODUCTS PIPE LINES. The Company owns and operates 7 miles of 12″, 1,377 miles of 8″ and 54 miles of 6″ products pipe lines extending from the Panhandle of Texas to East Chicago, Indiana, together with necessary pumping stations. Terminals, comprising tankage and other necessary facilities, are located at or near Phillips, Texas; Laverne, Oklahoma; Wichita, Paola and Kansas City, Kansas; Jefferson City, Missouri; East St. Louis, Decatur and Kankakee, Illinois; and East Chicago, Indiana. These lines, together with the jointly-owned Phillips, Texas—LaJunta, Colorado, line described under "History and Business" herein, all of which are common carrier pipe lines, are located on land for which rights-of-way are held. The pumping stations and terminals are located on land owned in fee or held under lease.

Supplementing its products pipe line facilities, the Company owns a 4.99% stock interest in Great Lakes Pipe

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Line Company which owns and operates an extensive common carrier products pipe line, through which the Company's products are transported to certain of the North Central States.

TANK CARS AND AUTOMOTIVE EQUIPMENT. At December 31, 1949, the Company was operating a fleet of 3,416 tank cars, of which 532 were Company-owned and 2,884 were leased. In addition, the Company owns trucks, tractors, automobiles and airplanes.

MARKETING. At December 31, 1949, the Company owned or leased 1,607 operating gasoline and oil service stations and 833 operating bulk stations located in the Company's principal marketing territory. The Company also owns 17 bulk stations for the storage and distribution of liquefied petroleum gases, which are on land held in fee or under long-term lease and are located in Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, New Jersey, Ohio, Pennsylvania and Wisconsin.

CHEMICAL MANUFACTURING PLANTS. The principal chemical manufacturing plants, all of which, unless otherwise indicated, are owned and located on sites owned in fee, are: (1) Philblack furnace carbon black plants near Borger, Texas—capacity 193,000,000 pounds per year. (2) Cactus anhydrous ammonia plant near Etter, Texas—capacity 154,000 tons per year. The original plant and site are held under a terminable

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lease from the United States Army and a substantial portion of the plant enlargement is owned by the Company. (3)

Cactus nitric acid plant near Etter, Texas—capacity 84,000 tons per year. The plant and site are held under a terminable lease from the United States Army and a minor portion of the plant is owned by the Company. (4) Cactus ammonium nitrate fertilizer plant near Etter, Texas—capacity 100,000 tons per year. (5) Port Adams ammonium sulfate plant near Houston, Texas—capacity 270,000 tons per year. (6) Near Phillips, Texas, are located the Company's sulfur compounds plant, reference fuels fractionators, solvents fractionators, pure hydrocarbons plant, and similar facilities. These latter plants are located partially on land held under long-term leases.

The Company owns a 50% stock interest in Texas-Elf Carbon Company which produces channel carbon black at its plant, located in Gray County, Texas, with a daily capacity of 55,000,000 cubic feet of gas.

PROPERTY OF UNCONSOLIDATED SUBSIDIARIES. The principal assets of West Edmond Oil Company, a wholly owned subsidiary, are 39 producing oil and gas leases in the States of Oklahoma, Kansas, and Montana, with an average daily net production during 1949 of approximately 1,300 barrels. Wasatch Southern Gasoline Company, in which the Company owns a 50.96% stock interest, owns and operates marketing facilities in the area of Pleasant Grove, Utah.

GENERAL. The principal operating offices of the Company are located at Bartlesville, Oklahoma, in buildings owned by the Company, supplemented by leased space in various other buildings. The Company has under construction in Bartlesville a twelve-story office building now partly

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occupied, and an apartment building substantially completed, the aggregate estimated cost of which is $12,500,000 which may be financed in substantial part by long term borrowings or by sale of such properties under lease-back provisions but no such arrangements have been made. The Company maintains offices in New York and in various divisions and districts in its operating territory. The Company's principal research laboratories are maintained in buildings owned by the Company and located at Bartlesville, Oklahoma, and Phillips, Texas.

[7339]

Exhibit No. 45-A

[*Note: Cover, title page, and table of contents omitted.*]

Diagrammatic sketch bearing legend "Phillips Petroleum Company — Bartlesville, Oklahoma — Flow Sheet — Sherman & Hansford Plant Gas System."

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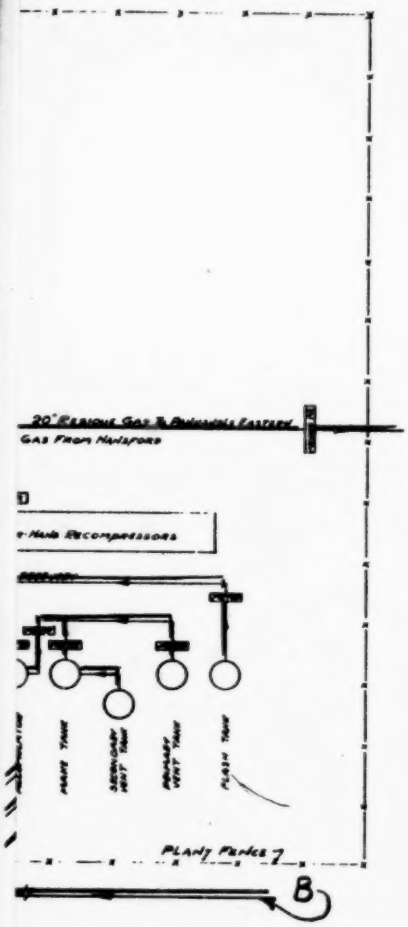
Exhibit No. 45-A



— Raw Gas

— Residue Gas

— Plant Vapors

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA

FLOW SHEET
SHERMAN & HANSFORD PLANT GAS SYSTEM

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[7340]

Exhibit No. 45-B

Diagrammatic sketch bearing legend "Phillips Petroleum Company — Bartlesville, Oklahoma — Flow Sheet — Sneed Plant Gas System."

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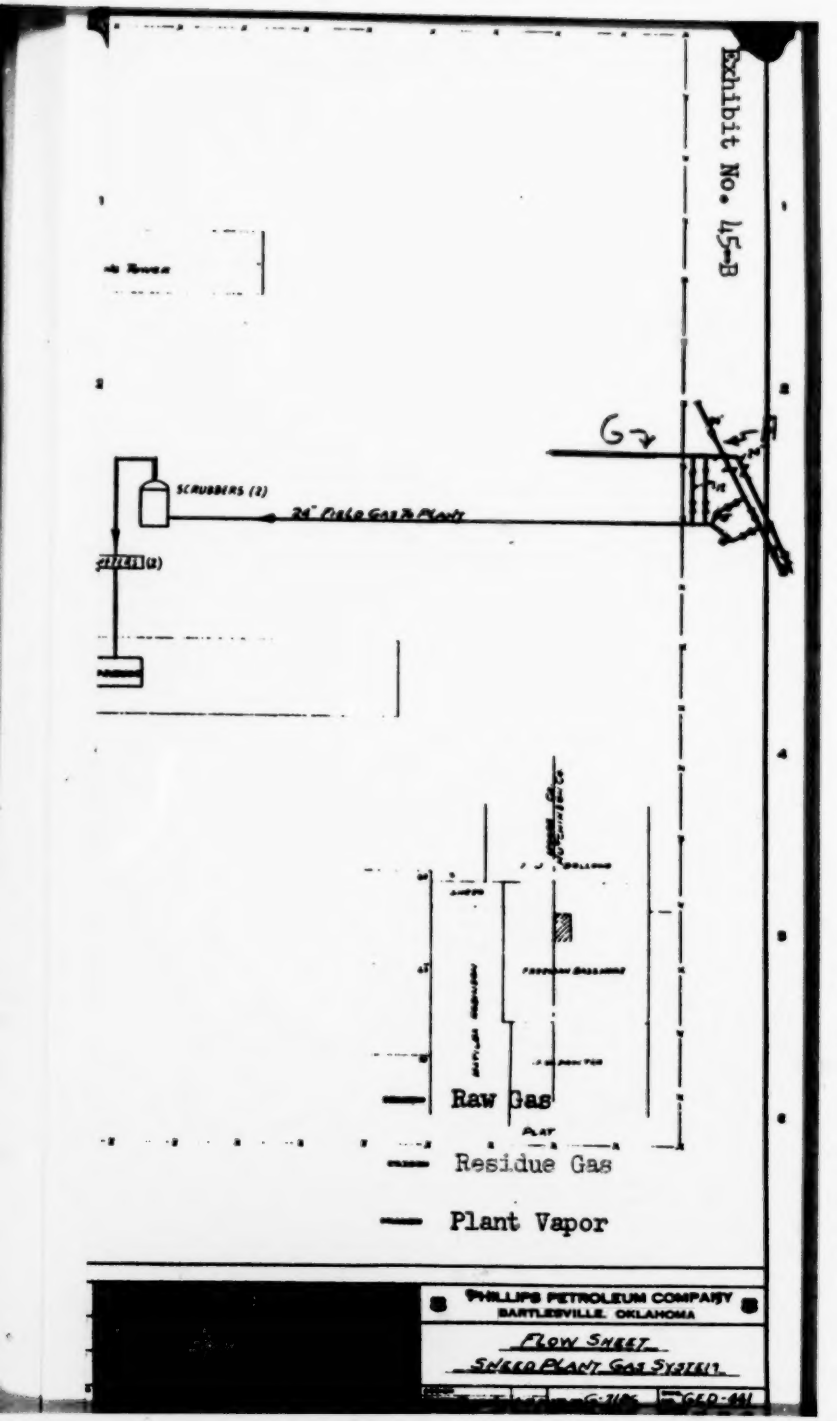
Exhibit No. 45-B



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[7341]

Exhibit No. 45-C

Diagrammatic sketch bearing legend "Phillips Petroleum Company—Diagrammatic Layout of Plant Piping at Gray Plant."

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FEDERAL POWER COMMISSION

DOCKET NO. G-1148

PHILLIPS PETROLEUM COMPANY

Residue
Raw G

GRAMMATIC LAYOUT OF PLANT PIPI

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[7342]

Exhibit No. 45-D

Diagrammatic sketch bearing legend "Phillips Petroleum Company — Bartlesville, Oklahoma — Flow Sheet — Dumas Plant Gas System."

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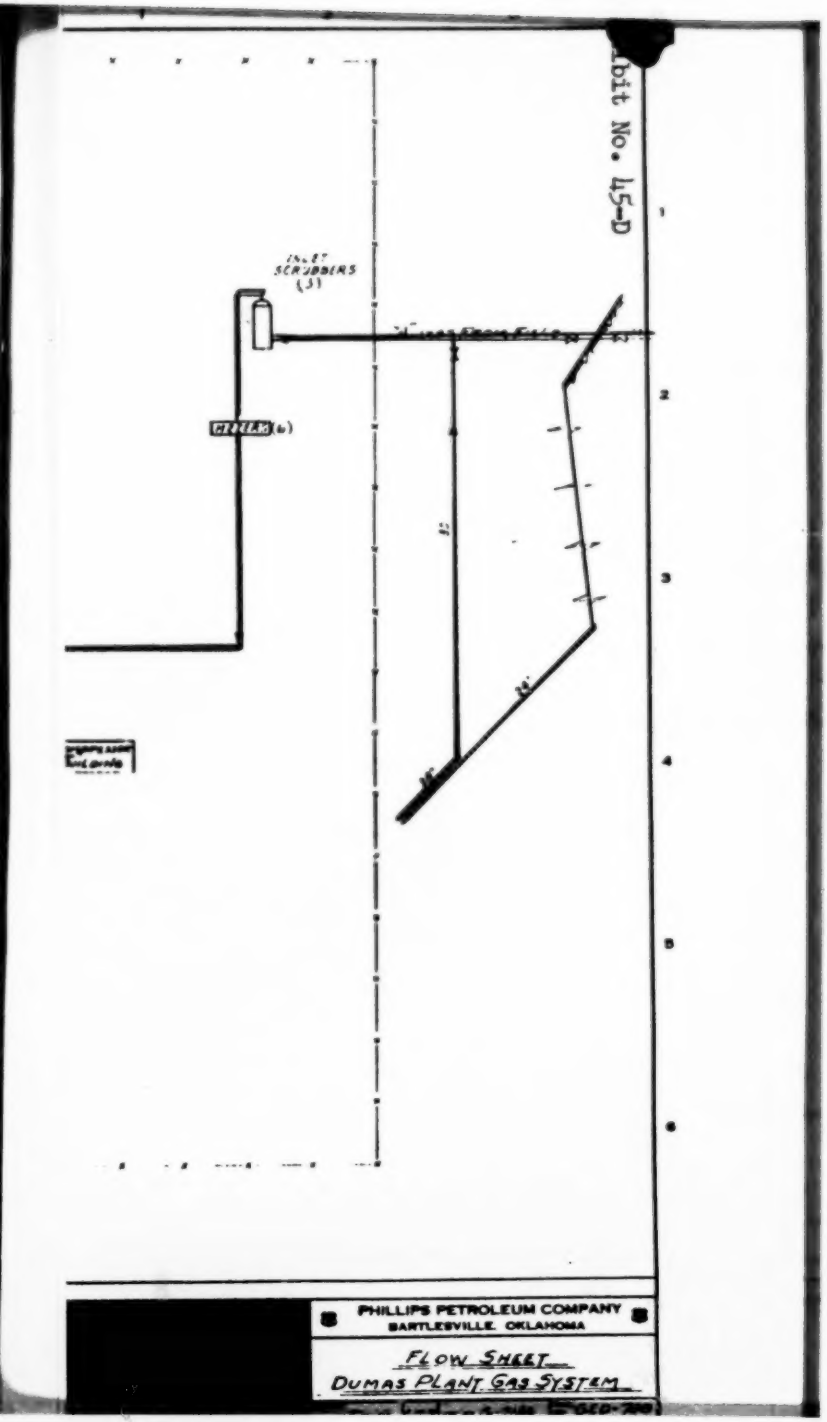

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[7343]

Exhibit No. 45-E

Diagrammatic sketch bearing legend "Phillips Petroleum Company—Diagrammatic Layout of Plant Piping at Eunice Plant."

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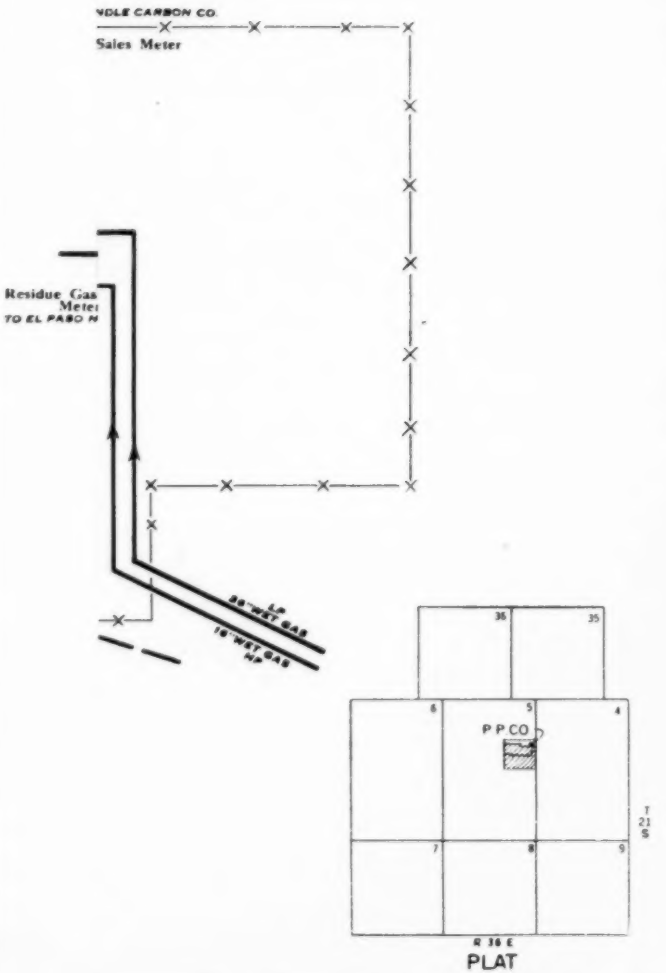

PLAT

FEDERAL POWER COMMISSION

DOCKET NO. G-1148

PHILLIPS PETROLEUM COMPANY

DIAGRAMMATIC LAYOUT OF PLANT PIPING

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[7344]

Exhibit No. 45(E)-1

Diagrammatic sketch bearing legend "Bartlesville, Oklahoma—Flow Sheet—Eunice Plant Gas System."

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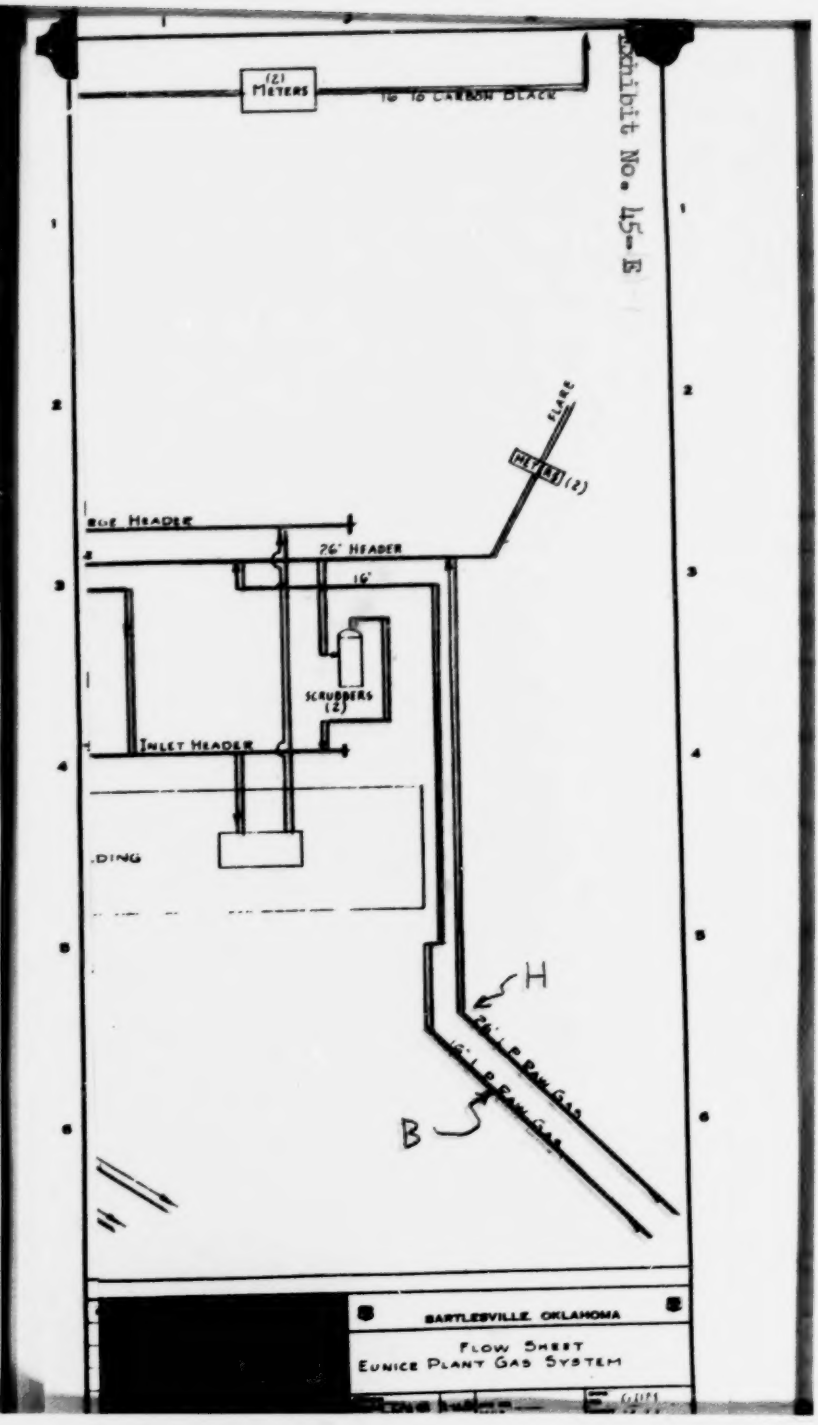

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[7345]

Exhibit No. 45-F

Diagrammatic sketch bearing legend "Phillips Petroleum Company—Diagrammatic Layout of Plant Piping at Fullerton Plant Area."

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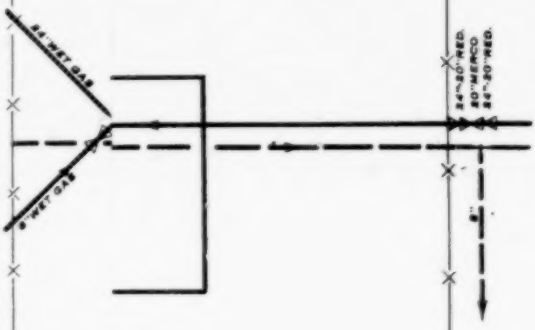

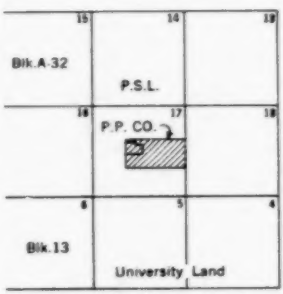

PLAT

FEDERAL POWER COMMISSION

DOCKET NO. G-1148

PHILLIPS PETROLEUM COMPANY

RAMMATIC LAYOUT OF PLANT PIPING

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[7346]

Exhibit No. 45(F)-1

Diagrammatic sketch bearing legend "Phillips Petroleum Company—Bartlesville, Oklahoma, Flow Sheet—Fullerton Plant Gas System."

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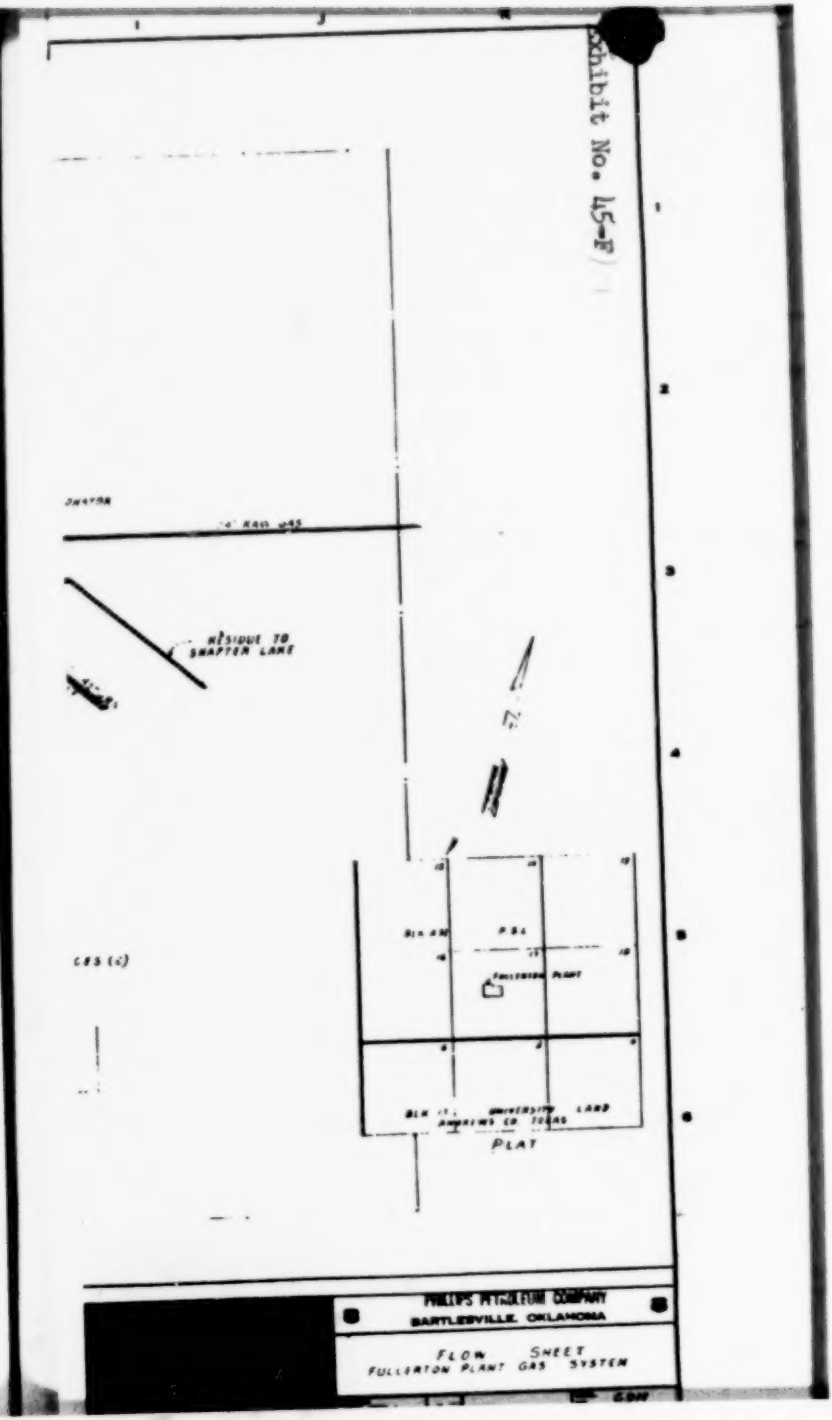

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[7347]

Exhibit No. 45-G

Diagrammatic sketch bearing legend "Phillips Petroleum Company—Diagrammatic Layout of Plant Piping at Goldsmith Plant."

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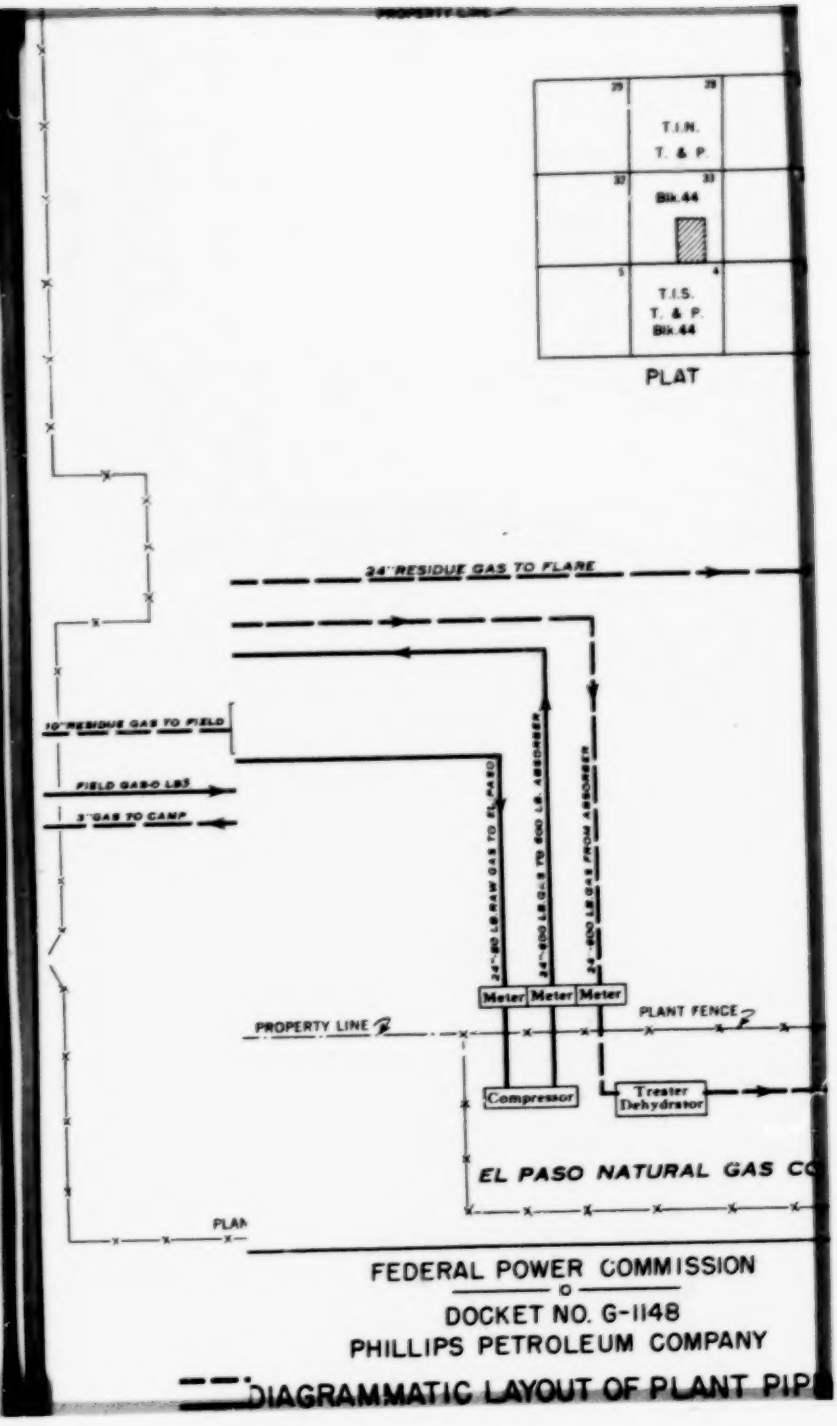

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[7348]

Exhibit No. 45(G)-1

Diagrammatic sketch bearing legend "Phillips Petroleum Company, Bartlesville, Oklahoma—Flow Sheet—Goldsmith Plant Gas System."

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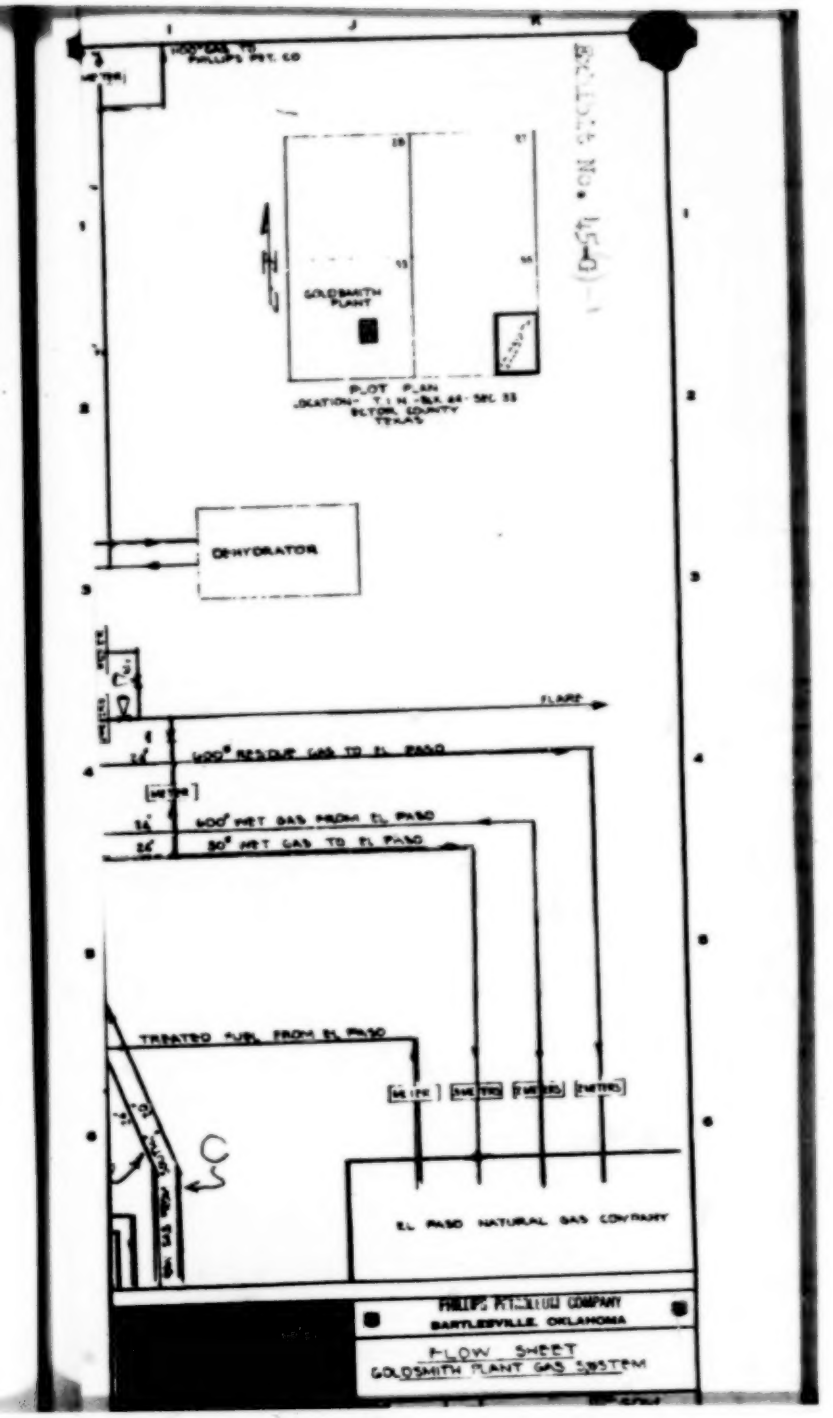

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[7349]

Exhibit No. 45-H

Diagrammatic sketch bearing legend "Phillips Petroleum Company—Diagrammatic Layout of Plant Piping at Crane Plant Area."

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FEDERAL POWER COMMISSION

DOCKET NO. G-1148

PHILLIPS PETROLEUM COMPANY

DIAGRAMMATIC LAYOUT OF PLANT PIPING

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[7350]

Exhibit No. 45(H)-1

Diagrammatic sketch bearing legend "Phillips Petroleum Company — Bartlesville, Oklahoma — Flow Sheet — Crane Plant Gas System."

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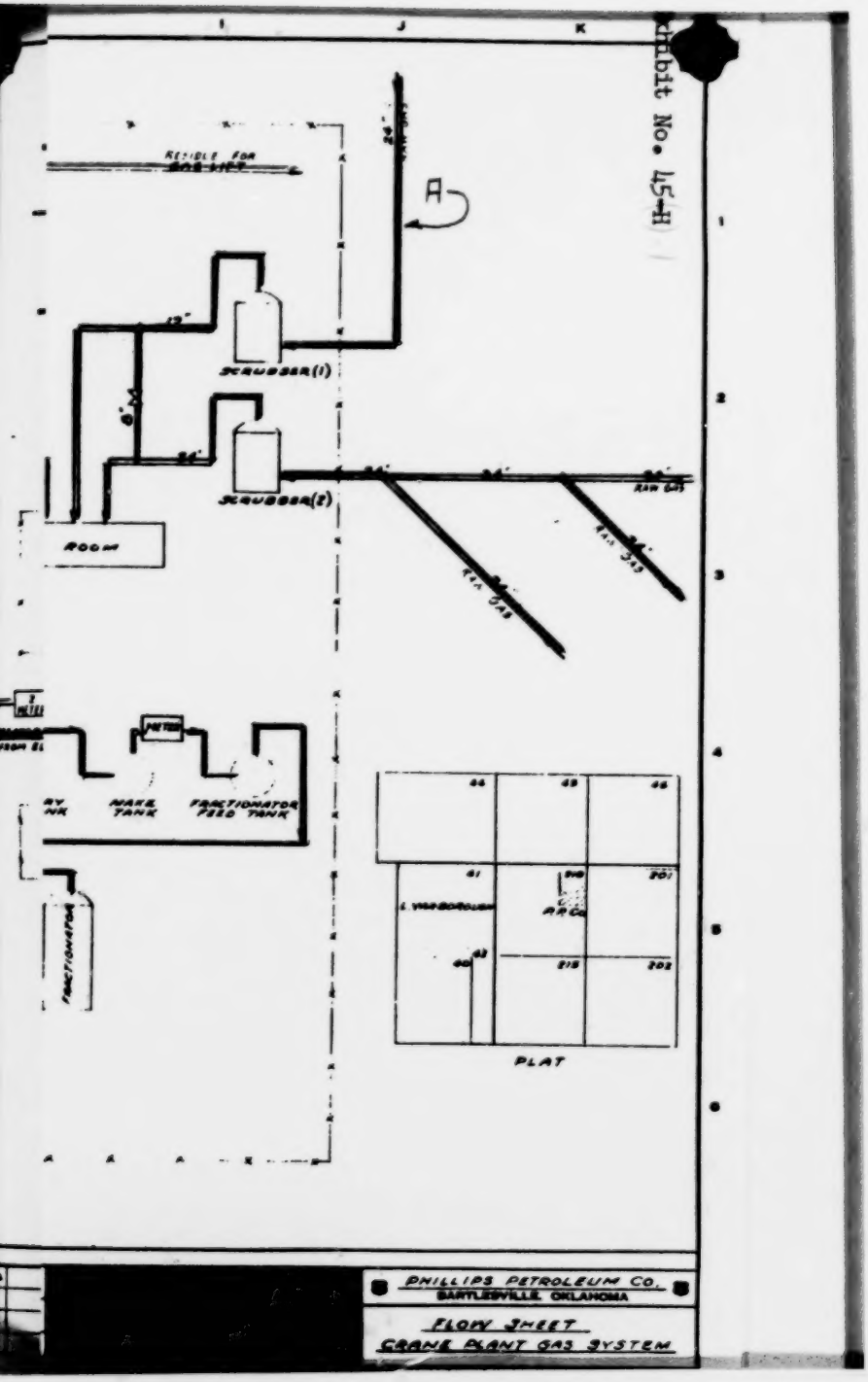

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[7355]

Exhibit No. 48

Sketch bearing legend "Diagram of Pipe Line Facilities Used to Supply Natural Gas to El Paso Natural Gas Company at Eunice Plant, New Mexico."

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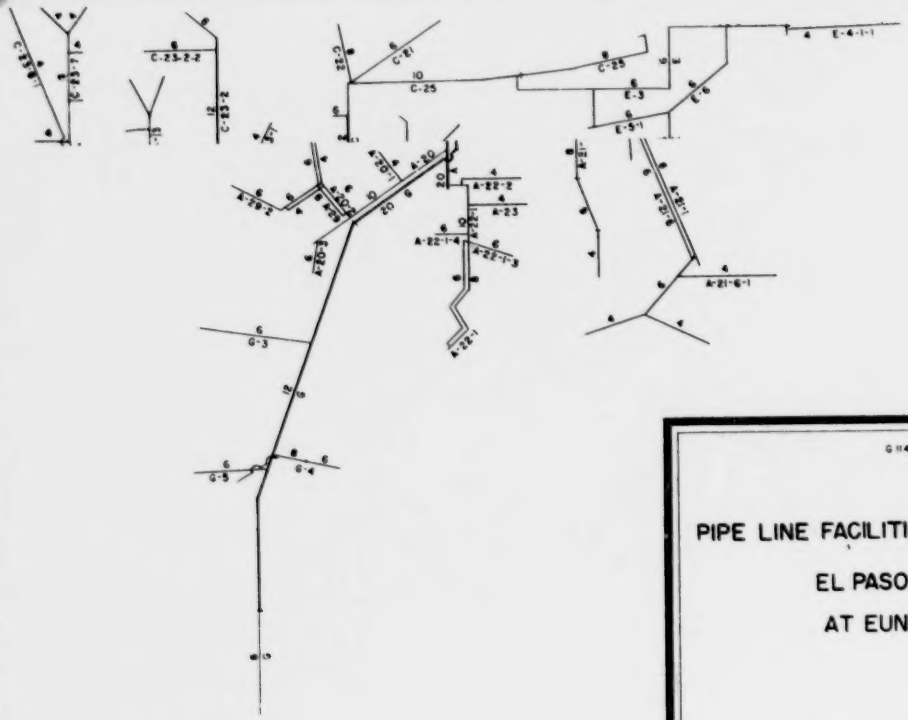

GH48 PHILLIPS PETROLEUM COMPANY

DIAGRAM OF
PIPE LINE FACILITIES USED TO SUPPLY NATURAL GAS
TO
EL PASO NATURAL GAS COMPANY
AT EUNICE PLANT, NEW MEXICO

APPROXIMATE SCALE

0 1 2

MILES

[7356]

Exhibit No. 49

Sketch bearing legend "Diagram of Pipe Line Facilities Used to Supply Natural Gas to El Paso Natural Gas Company at Fullerton Plant, Texas (Andrews County)."

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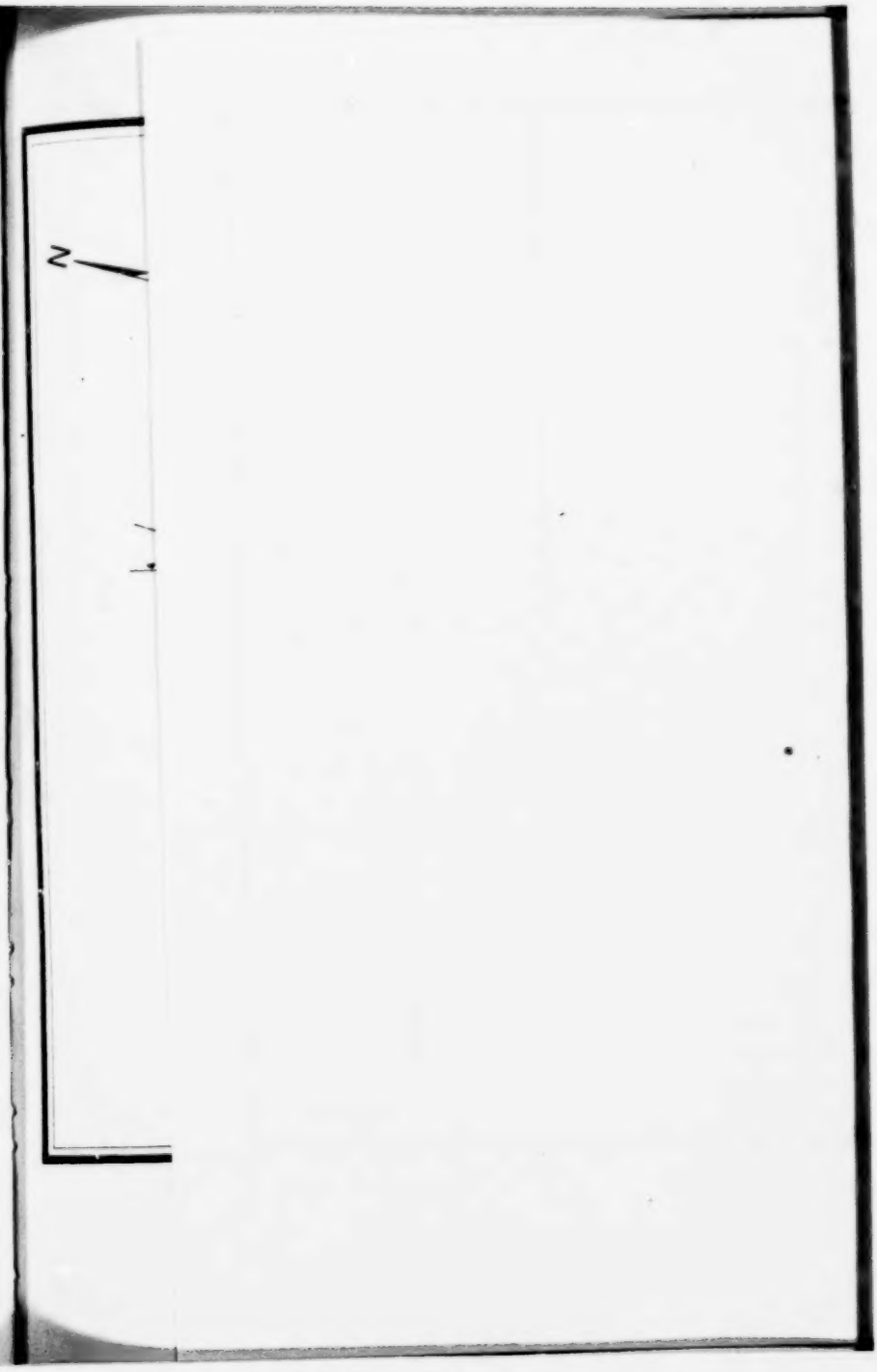

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[7357]

Exhibit No. 50

Sketch bearing legend "Diagram of Pipe Line Facilities Used to Supply Natural Gas to El Paso Natural Gas Company at Goldsmith Plant, Texas."

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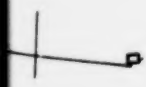

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[7358]

Exhibit No. 51

Sketch bearing legend "Diagram of Pipe Line Facilities Used to Supply Natural Gas to El Paso Natural Gas Company at Crane Plant, Texas (Crane County)."

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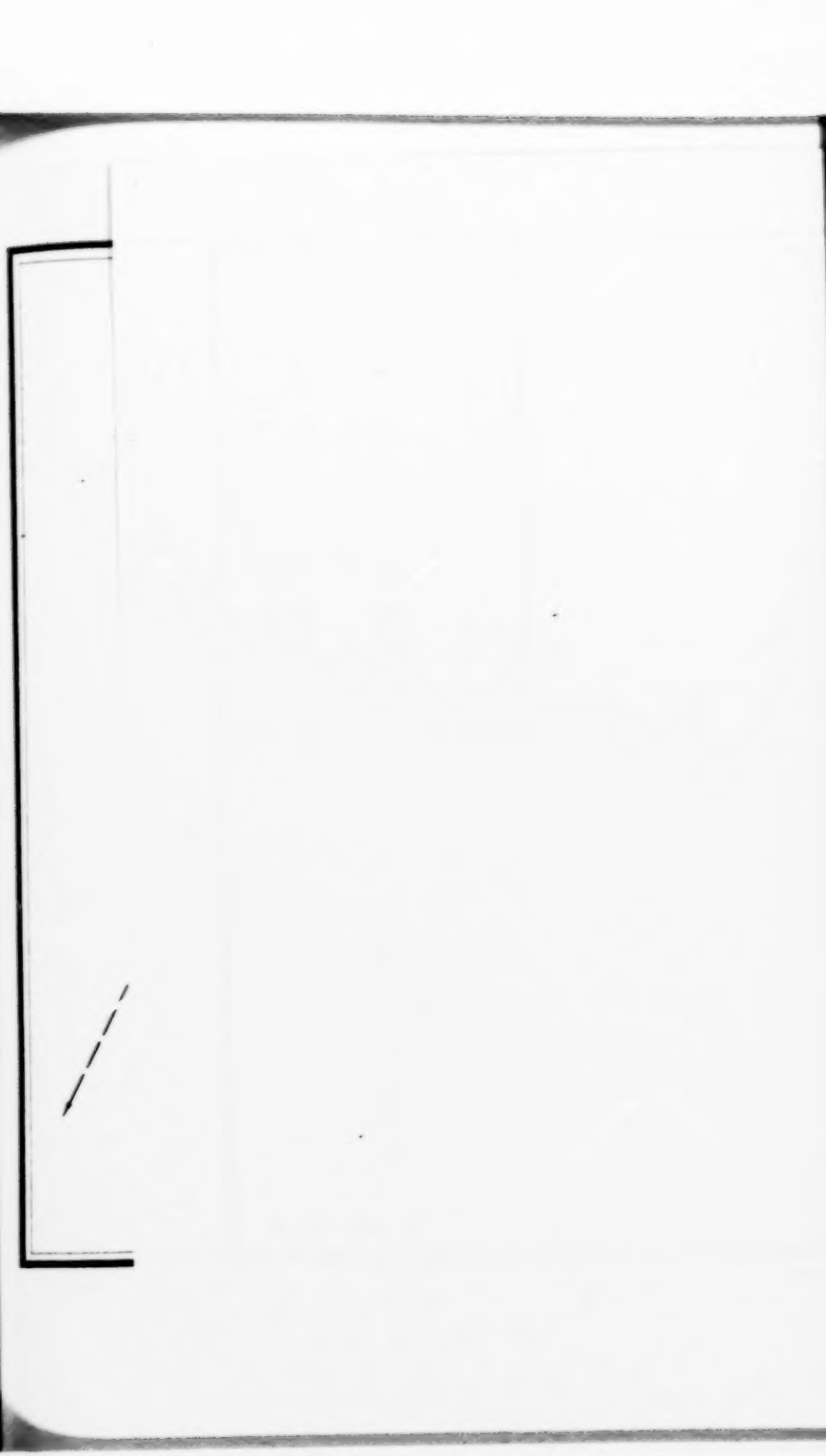

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[7404]

Exhibit No. 52

RESIDUE GAS CONTRACT

AGREEMENT, made and entered into this 5th day of July, 1945, by and between PHILLIPS PETROLEUM COMPANY, a Delaware Corporation, and CONTINENTAL OIL COMPANY, a Delaware Corporation, hereinafter referred to as "Sellers," and CITIES SERVICE GAS COMPANY, a Delaware Corporation, hereinafter referred to as "Buyer."

WITNESSETH:

* * *

[7407]

4. The point of delivery of all gas sold and purchased hereunder shall be at the south fence line of Sellers' plant site. Sellers agree to install, operate and maintain such pipe line. regulating devices, drips, separators, cooling equipment and compressor equipment as may be reasonably necessary to deliver such gas reasonably free from liquids against the varying pressure in Buyer's pipe line, up to but not in excess of five hundred (500) pounds per square inch gauge, and to deliver such gas at temperatures which reasonably protect Buyer's pipe line. Sellers shall dehydrate the gas delivered hereunder to a dew point, at delivery pressure, which is at least ten degrees (10°) below the prevailing atmospheric wet bulb temperatures; provided, that Sellers shall not be required to reduce the dew point below thirty degrees (30°) Fahrenheit.

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[7427]

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE PETITION FOR THE CREATION OF THE WEST EDMOND HUNTON LIME UNIT HAVING FOR ITS PURPOSE THE UNITIZED MANAGEMENT, OPERATION AND FURTHER DEVELOPMENT OF A PORTION OF THE WEST EDMOND HUNTON LIME COMMON SOURCE OF SUPPLY OF OIL AND GAS LOCATED IN OKLAHOMA, LOGAN, KINGFISHER, AND CANADIAN COUNTIES, OKLAHOMA: THE DEFINING OF THE UNIT AREA THEREOF AND THE PRESCRIBING OF THE PLAN OF UNITIZATION APPLICABLE TO SUCH UNIT AND UNIT AREA.

CAUSE CD No. 1355
ORDER No. 20212

REPORT AND ORDER OF THE COMMISSION

The above styled and numbered cause is a proceeding brought by the lessees of a substantial majority of the acreage in the West Edmond Hunton Lime oil and gas pool located in Oklahoma, Logan, Kingfisher and Canadian Counties, Oklahoma, seeking to unitize the management, operation and further development of said pool for the purpose of preventing the waste of gas and of substantially increasing the ultimate recovery of oil therefrom, all as authorized and provided for in H. B. 339 of the 1945 Legislature. The bringing of this proceeding followed months of cooperative study of the pool and of the benefits of unitization engaged in by substantially all of the operating lessees in the pool and

in which all were invited to participate. The original petition herein, attached to which was a recommended Plan of Unitization applicable to said pool, was filed January 29, 1947. Pursuant to order of the Commission said petition was set for hearing March 18, 1947, at 10:00 o'clock, A. M., in the Commission's Court Room in the State Capitol Office Building, Oklahoma City, Oklahoma, and notice thereof was published once a week for three consecutive weeks in a newspaper of general circulation in each of the four counties in which the West Edmond Lime pool is located. On March 5, 1947, an amended petition was filed for the purpose of making certain amendments to the recommended Plan of Unitization. A complete copy of the amended Plan of Unitization was attached to said amended petition. Pursuant to the further order of the Commission, said amended petition was set for hearing at the same time and place as the hearing on the original petition and notice thereof was published in a newspaper of general circulation in Oklahoma County, Oklahoma. In advance of the hearing, as is its usual custom in oil and gas matters, the Commission mailed mimeographed copies of said petitions, together with information as to the time of the hearing, to all persons on its established mailing list, which includes all of the operating lessees within the West Edmond Hunton Lime pool. As a result, all parties in interest were given ample opportunity to be fully advised with respect to the subject matter of said hearing.

The hearing of said cause was commenced at the time and place so fixed, namely, March 18, 1947, at 10:00 o'clock A. M. in the Commission's Court Room, Capitol Office Building, Oklahoma City, and was continued at the same place, throughout all of the following days, to wit: March 18, 19, 20, 21, 25, 26, 27 and 28; June 3, 4, 5, 25 and 26; and July 1, 2, 3, 8, 9 and 10; all in 1947. The continuance of said hearing

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from time to time was by proper orders on continuance. At said hearing the petitioners and subscribers to the proposed Plan of Unitization were represented by the following named attorneys: W. W. Heard, W. H. Brown, George Hazlett, W. R. Wallace, R. O. Wilson, T. Murray Robinson and R. M. Williams. The protestant

[7428]

CAUSE CD No. 1355 ORDER No. 20212

British-American Oil Producing Company appeared by its attorneys, Donald Prentice, Earl Pruet and Kent Shartel. The protestant Gulf Oil Corporation appeared by its attorney, Russell G. Lowe. The protestant H. H. Wagner appeared by his attorneys, F. C. Love and V. P. Crowe. The Denver Producing and Refining Company appeared at the outset of the hearing as a protestant but during the course of the hearing announced the withdrawal of its protest due to the sale of its property to the Champlin Refining Company, which purchaser elected to join in the proposed Plan of Unitization as a Subscriber thereto. W. W. Whistler, a royalty owner appeared as a protestant by his attorneys, Lynn Adams. Approximately 180 royalty owners appeared as protestants by their attorney, Coleman Hayes. James Johnson, both a working interest and royalty owner, appeared in person in support of the petition. A number of royalty owners wrote letters to the Commission urging the granting of the petition. Other royalty owners and various parties in interest were present at the hearing from time to time but took no part.

At the hearing everyone who desired to do so, regardless of the interest of such person, was given full opportunity to offer any and all competent evidence that such person chose to offer, either for or against the recommended Plan of

Unitization or by way of amendment thereof, and to otherwise be heard in regard thereto. The evidence so introduced consisted of extensive geological, engineering and other proof concerning the history, discovery, development, operation and present condition of the West Edmond Hunton Lime pool and the results obtainable both under present competitive methods of operation and through the unitization thereof; proof both pro and con as to the fairness, reasonableness and equitableness of the recommended Plan of Unitization; and proof by protestants with respect to certain amendments which they claim should be made in said plan.

In addition to the knowledge gained from the evidence introduced at said hearing, the Commission has a general knowledge of the pool and of conditions existing therein, gained through the exercise by it of its jurisdiction over such pool under the conservation laws of the state dating from the discovery thereof. As a result of the testimony, statements and arguments introduced and made in the hearing here under consideration, and by reason of its general knowledge of the West Edmond Hunton Lime pool, gained through the exercise of its jurisdiction under the conservation laws of the state, the Commission is of the opinion that it has sufficient knowledge and information upon which to base a proper order in this cause.

NOW, on the 29th day of July, 1947, the Commission having previously taken said cause under advisement and having considered the matter in conference and each of the commissioners being well and sufficiently advised, the Commission makes the following findings of fact and conclusions of law and enters the following order authorizing and approving the creation of the West Edmond Hunton Lime Unit, defining the Unit Area thereof and prescribing the Plan of Unitization Applicable to each Unit and Unit area.

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FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. That the notice of the filing of both the petition and amended petition herein and the time and place of hearing thereof and the purpose of said hearing was regularly given in all respects as by law required, and that the Commission has jurisdiction of the subject matter of said petition and amended petition and of all persons interested therein and has jurisdiction to make and promulgate the hereinafter prescribed order.

[7429]

CAUSE CD No. 1355 ORDER No. 20212

2. That the lands (hereinafter designated as the Unit Area) outlined by the hatched line on the map marked "Exhibit A" and attached to the Plan of Unitization attached to and made a part of this order, are underlaid with an oil and gas bearing formation known as the Hunton Lime formation found at depths ranging from approximately 6600 feet on the east side of said Unit Area to approximately 7200 feet on the west side of said Unit Area; that said Hunton Lime formation has an average formation thickness of approximately 350 feet and consists of a number of lithologic subdivisions or members, most important of which are the Bois d'Arch member, the Henry House-Harrington member and the Chimney Hill member; that said Hunton Lime formation as above described and which has been designated by the Commission as the West Edmond Hunton Lime pool or field, constitutes a single common source of supply of oil and gas, all portions of which are permeably connected so as to permit the migration of oil and gas from one portion of said common source of supply to another.

3. That said common source of supply of oil and gas was first discovered on or about April 12, 1943, by the completion of the Fox-Schmitz Wagner #1 Well in the NW/4 of the NW/4 of the SW/4 of Section 32, Township 14 North, Range 4 West, Oklahoma County, Oklahoma; that at the present time there are 737 wells located within the aforesaid Unit Area and producing from said common source of supply.

4. That the portion of said common source of supply underlying and included within the aforesaid Unit Area and which is made subject to this order has been reasonably defined by actual drilling operations, both by the drilling of wells within and the drilling of wells outside said Unit Area; that said Unit Area consists of approximately 30,000 acres of land in areal extent constitutes one of the largest oil and gas pools in the State of Oklahoma.

5. That the lands embraced within the aforesaid Unit Area are divided into a large number of tracts owned in severalty by a multitude of owners varying interests therein, including leasehold interest, royalty interests, and various and sundry other rights and interests; that the lessees within the Unit Area are divided into two classes, (1) lessees engaged in the physical operation of the several leases, and (2) lessees owning leasehold interests other than an operating interest; that of the total leasehold interests within the Unit Area approximately 98.7592% is owned by lessees of the class first named, i. e., operating lessees, consisting of approximately 32 such lessees, with the remaining 1.2408% of the leasehold interests within the Unit Area being owned by lessees of the second class; i. e., nonoperating lessees, consisting of approximately 20 such lessees; that the royalty interest under said leases are owned by not less than 2500 royalty owners owning varying interests.

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6. That the petitioners in this cause are lessees of record of not less than 65% of the area of the common source of supply herein sought to be unitized; that the subscribers to the Plan of Unitization herein recommended and which is approved and prescribed by the Commission are lessees of record of approximately 90.44% of the area of said common source of supply herein sought to be unitized; that the lessees appearing at the hearing and protesting the granting of the petition herein are lessees of record of approximately 5.8093% of the proposed Unit Area; that the lessees of the remaining percentage of the Unit Area have not appeared for or against the granting of the petition.

[7430]

CAUSE CD No. 1355 ORDER No. 20212

7. That at all times since its discovery and continuing to the present time, said West Edmond Hunton Lime common source of supply of oil and gas, subject only to the orders of the Commission issued under authority of the General Conservation Laws of the State, has been developed and operated by and under individual pressure depletion methods of development and operation; that under the orders of the Commission each of the separately owned tracts as defined and described in the Plan of Unitization hereto attached is a separate Unit of development and operation for oil and gas purposes; that by reason of the division of said proposed Unit Area into small tracts or Units for development and operating purposes and because of said individual methods of operation conducted on each such separately owned tract there has been and still continues to be a disproportionate, inequitable and wasteful utilization and dissipation of the gas energy in the reservoir to the injury, detriment and disadvantage of the other tracts therein and

of the common source of supply as a whole, large volumes of gas are being wasted and millions of barrels of oil were left in said common source of supply unrecovered and unrecoverable except by and through unitized methods of operation.

8. That by and through the unitization of the proposed Unit Area and the unitized management, operation and further development thereof as a Unit, all as set out in the Plan of Unitization hereto attached, full use can be made of the gas energy in the reservoir to the mutual advantage of all the owners of said common source of supply of oil and gas, the waste of large volumes of oil and gas can be prevented, water encroachment on the lower side of the pool can be properly controlled and utilized, a more equitable distribution of the recoverable oil and gas can be had as between the several owners of the pool, substantially more oil amounting to millions of barrels can be recovered from the common source of supply than can otherwise be recovered, and the correlative rights of the several owners can be better protected.

9. That the unitization and the unitized management, operation and further development of said common source of supply as a Unit is reasonably necessary to effectively carry on the unitized methods of operation described in said proposed Plan of Unitization.

10. That any one or all of said unitized methods of operation as applied to the common source of supply underlying and included within the proposed Unit Area are feasible, will prevent waste, and will, with reasonable probability, result in the increased recovery of substantially more oil and gas from the common source of supply than would otherwise be recovered, that the estimated additional cost of conducting such operations will not exceed the value of

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the additional oil and gas so recovered; that such unitization and the adoption of any one or more of such unitized methods of operation is for the common good and will result in the general advantage to the owners of the oil and gas rights in and to the portion of the common source of supply thereby affected.

11. That the Unit Area is of such size and shape as is reasonably required for the successful and efficient conduct of any one or all of the unitized methods of operation described in the attached Plan of Unitization; that the conduct of any one or any combination thereof or all of said unitized methods of operation will have no material adverse effect on the remainder of said common source of supply.

[7431]

CAUSE CD No. 1355 ORDER No. 20212

12. That neither said West Edmond Hunton Lime common source of supply of oil and gas nor any part or parts thereof were being operated by or under pressure maintenance, repressing or secondary recovery methods of operation as of the effective date of H. B. 339 of the 1945 Oklahoma Legislature.

13. That the recommended Plan of Unitization attached to the amended petition filed herein, a copy of which is attached to this order and is made a part hereof, is one suited to the needs and requirements of the West Edmond Hunton Lime Unit, the creation of which is hereby authorized and approved, taking into account all the facts and conditions found by the Commission to exist in respect thereto; that said Plan of Unitization is fair, reasonable and equitable and contains all the terms, provisions, conditions and requirements reasonably necessary and proper to protect,

safeguard and adjust the respective rights and obligations of the several persons affected, including royalty owners, owners of overriding royalty interests, oil and gas payments, carried interests, interests, mortgages, lien claimants and others, as well as the lessees, and such as will effectuate and accomplish the purposes of H. B. 339 of the 1945 Oklahoma Legislature; that said Plan of Unitization provides for the efficient unitized management and control of the further development and operation of the Unit Area for the recovery of oil and gas from the common source of supply affected; that the division of interest set forth in "Exhibit B" attached to said Plan of Unitization pursuant to which the Unit production is to be apportioned and allocated among and to the several separately owned tracts within the Unit Area is fair and equitable and is such as will reasonably permit persons otherwise to share in or benefit by the production from such separately owned tracts to receive, in lieu thereof, their fair, equitable and reasonable share of the Unit production or other benefits thereof; that the division of interest assigned to the several separately owned tracts in the Unit Area as set out in said "Exhibit B" to said Plan of Unitization is fair and reasonably representative of the value of said several tracts for oil and gas purposes and the contributing value thereof to the Unit in relation to like values of other tracts in the Unit; that the basis used to arrive at said division of interest takes into account the acreage of the several separately owned tracts, the quantity of oil and gas recoverable therefrom, the location thereof on structure, the probable productivity of oil and gas from such tracts, the quantity of oil and gas recoverable therefrom, the probable productivity of oil and gas from such tracts in the absence of unitization, the burden of operation to which such tracts will or are likely to be subjected, together with all other pertinent engineering, geological and operating factors as are reasonably susceptible of determination; that the

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manner in which and the basis, terms and conditions on which the cost and expense of the further development and operation of the Unit Area shall be financed and apportioned among and assessed against the tracts and interests chargeable therewith are fair, reasonable and equitable; that the provisions of the said Plan with respect to taking over and using the wells, equipment and other properties of the several lessees within the Unit Area, including the method of arriving at the compensation therefor and otherwise proportionately equalizing and adjusting the investment of the several lessees in the project as of the effective date of the Unit operations are fair, reasonable and equitable; that the provisions of said Plan with respect to the creation of an operating committee and the powers and duties of such committee are fair, reasonable and equitable.

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CAUSE CD No. 1355 ORDER No. 20212

14. That in the ordinary course of events there will be tracts within the Unit Area which as of the effective date of said Plan of Unitization will have produced oil from said Hunton Lime formation in excess of the amount such tracts were allowed to produce under the prior conservation orders of the Commission, which said excess oil is known and is referred to in this order as overproduction; that it would be unfair and in violation of the correlative rights of the owners of other tracts in said Unit Area if such overproduced tracts are not required to make up such overproduction; that the amount of the overproduction charged against each such tract should be charged against and made up out of the Unit production of oil allocated to such tract under the Plan of Unitization.

15. That the Corporation Commission, since the discovery of said Hunton Lime Pool, has regulated the production of oil and gas therefrom and that in the absence of unitization, it was impossible to control the venting of gas in said field; that the Commission has fixed gas-oil ratio limitations at various times in an effort to reduce the amount of gas being vented at the wells and at the gas plants in said field, but in spite of the continued action of the Commission, billions of cubic feet of natural gas has been vented into said field under competitive production practices; that the first thing to be done in the proposed plan is shut in the high gas-oil ration wells and to selectively produce the oil from the low gas-oil ratio wells, and this will have the effect of further decreasing the amount of gas produced in said field to a point where all gas produced in said field will be utilized either at the gasoline plants or sold; that the experience gained by the Corporation Commission in its attempt to regulate the production of oil and gas in said pool up to the present time has convinced it that the only practical method surbing the waste of natural gas is the granting of this application and the operation of the pool under unitized management.

16. That the Plan of Unitization hereto attached in all respects conforms to and complies with the requirements of H. B. 339 of the 1945 Oklahoma Legislature.

17. That the amended petition filed herein and pursuant to which this order is made conforms to and in all respects complies with the requirements of House Bill 339 of the 1945 Oklahoma Legislature.

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ORDER

IT IS THEREFORE ORDERED BY THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA AS FOLLOWS:

1. That the amended petition filed herein be and the same is hereby granted.

2. That the creation of the West Edmond Hunton Lime Unit as prayed in said amended petition be and the same is hereby authorized and approved.

3. That the Unit Area of said Unit shall extend to and include all of the West Edmond Hunton Lime common source of supply of oil and gas outlined by the hatched lines on the map marked "Exhibit A" attached to the Plan of Unitization attached to this order.

4. That the Plan of Unitization hereto attached and which by reference is made a part of this order is hereby approved and shall constitute the Plan of Unitization of and for said West Edmond Hunton Lime Unit and the Unit Area of said Unit, all to the same extent and with the same force and effect as if copied herein in its entirety.

5. Nothing herein contained shall be construed as a waiver by the Commission of any of its powers or authority over the West Edmond Hunton Lime Unit or the persons comprising said unit, or the development and operation of the Unit Area thereof under the general oil and gas conservation laws of the State of Oklahoma, it being expressly recited that the Commission has and retains continuing juris-

diction over the operations carried on by the Unit to the same extent that it would have jurisdiction over any other lessee or person producing oil and gas from the West Edmond Hunton Lime pool in the absence of unitization.

6. The unit shall from time to time make such reports to the Commission concerning the operation by it of the Unit Area as may be requested by the Commission.

7. The amount of overproduction charged against any tract within the Unit Area as of the effective date of said plan of Unitization shall be charged against and made up out of the unit production of oil allocated to such tract; that until such time as said tract's overproduction is made up, such overproduced tract shall not receive any part of the Unit production of oil; the Unit Operator shall each month file with the Corporation Commission a report by tracts of all overproduction so made up, together with a statement by tracts of the balance of the overproductions not so made up.

DONE AND PERFORMED by the Corporation Commission at its office in the Capitol Office Building, Oklahoma City, Oklahoma, this 29th day of July, 1947.

CORPORATION COMMISSION OF OKLAHOMA

Reford Bond, Chairman

Ray O. Weems, Vice-Chairman

Ray C. Jones, Commissioner

ATTEST:

Tom McMurray, Secretary

(SEAL)

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[7434]

PLAN OF UNITIZATION

of

WEST EDMOND HUNTON LIME UNIT

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Oklahoma, Canadian, Kingfisher
and Logan Counties, Oklahoma

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PLAN OF UNITIZATION

OF

WEST EDMOND HUNTON LIME UNIT

KNOW ALL MEN BY THESE PRESENTS:

The following shall constitute the Plan of Unitization applicable to the West Edmond Hunton Lime Unit created pursuant to authority of House Bill 339 of the 1945 Legislature of the State of Oklahoma and having for its purpose the unitized management, operation and further development of the Hunton Lime common source of supply of Oil and Gas underlying the lands outlined by the hatched line on the map hereto attached and marked "Exhibit A", all to the end that a greater ultimate recovery of Oil and Gas may be had therefrom, waste prevented and the correlative rights of the respective owners protected.

I

DEFINITIONS

As used in this Plan of Unitization, the following terms and expressions are defined as follows:

(a) "Unit" shall mean the West Edmond Hunton Lime Unit.

(b) "Commission" shall mean the Corporation Commission of the State of Oklahoma.

(c) "Person" shall mean any individual, corporation, partnership, common law or statutory trust, association of any kind, the State of Oklahoma or any subdivision or agency thereof acting in a proprietary capacity, guardian, executor, administrator, fiduciary of any kind or any other entity capable of holding an interest in and to the Unit Area.

(d) The pronoun "it" is used to refer to any person regardless of gender.

(e) "Unit Production" shall mean and include all oil and Gas produced from the Unit Area from and after the Effective Date hereof regardless of the well or tract within the Unit Area from which the same is produced.

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(f) "Lessee" shall mean any owner, in whole or in part, of an Oil and Gas lease or any unleased mineral interest, who alone or in association with another person or persons has the right, except for this Plan of Unitization, to explore, develop and operate a Separately Owned Tract for Oil and Gas and in so doing would

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be personally chargeable with a proportionate part of the cost and expense of the operation thereof. An owner of an overriding royalty interest, oil payment, carried interest, net profit contract, or other oil and gas rights of a similar nature, who is not personally chargeable with the cost and expense of operations, shall not be regarded as a Lessee.

(g) "Unit Operator" shall mean and refer to the Lessee designated to carry on and conduct the Unitized Operations within the Unit Area as provided in Section X hereof.

(h) "Oil and Gas" shall not only refer to Oil and Gas as such in combination one with the other, but shall have reference to oil, gas, casinghead gas, casinghead gasoline or other hydrocarbons, or any combination or combinations thereof, or any one thereof, which may be found in or produced from the Unit Area.

(i) "Oil and Gas Rights" shall mean and include the right to explore, develop and operate lands within the Unit Area for the production of Oil and Gas, to reduce the same to possession or to share in the production so obtained or the proceeds thereof.

(j) "Effective Date" shall mean the date on which the Unit assumes and takes over the operation of the Unit Area as is provided in Section IX hereof.

(k) "Unit Expense" shall include any and all cost, expense or indebtedness incurred by the Unit or Unit Operator as authorized by this Plan of Unitization or the order of the Commission creating the unit.

(l) "Unqualified Subscribers" shall mean and refer to those Lessees who sign this Plan of Unitization

as Unqualified Subscribers as is provided for in Section XXVII hereof.

(m) "Qualified Subscribers" shall mean and refer to those Lessees who sign this Plan of Unitization as Qualified Subscribers as is provided for in Section XXVII hereof.

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II.

NAME OF UNIT

The name of the Unit created hereby shall be West Edmond Hunton Lime Unit.

III.

UNIT AREA

The Unit Area of the Unit shall extend to and include all of the Hunton Lime formation underlying the lands outlined by the hatched line on the map hereto attached, marked "Exhibit A" and made a part hereof, the same being a single common source of supply of Oil and Gas, located in Oklahoma, Logan, Kingfisher and Canadian Counties, Oklahoma.

IV.

SEPARATELY OWNED TRACTS

Each well spacing or drilling unit as defined and established by Order No. 17082 of the Corporation Commission entered in Cause C. D. No. 894 and located within the Unit

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Area shall be defined, regarded and treated as a Separately Owned Tract within the purview of this Plan of Unitization. The Separately Owned Tracts as so defined and established are shown on the map hereto attached and marked "Exhibit A" and are for convenient identification numbered thereon and may be referred to by number.

V.

GENERAL POWERS OF UNIT

The Unit is authorized and empowered on behalf and for the account of all the Lessees within the Unit Area, without profit to the Unit, to supervise, manage and conduct the further development and operation of the Unit Area for the production of Oil and Gas, pursuant to the powers conferred and subject to the limitations imposed by the provisions of House Bill 339 of the 1945 Session of the Oklahoma Legislature and by this Plan of Unitization.

VI.

EFFECT OF UNITIZATION

The adoption of this Plan of Unitization and the creation of the Unit as herein provided shall have the effect from and after the Effective Date hereof of unitizing all further development and

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operations for the production of Oil and Gas from the Unit Area and of pooling and unitizing the production so obtained, all to the same extent as if the Unit Area had been included in a single lease and all rights thereunder owned

by the Lessees in undivided interests. Property rights, leases, contracts and all other rights and obligations in respect of the Oil and Gas Rights in and to the several Separately Owned Tracts within the Unit Area are hereby amended and modified to the extent necessary to make the same conform to the provisions and requirements of this Plan of Unitization, but otherwise to remain in full force and effect.

The relationship between the Lessees within the Unit Area, resulting from the creation of the Unit shall not be that of a trust, partnership or association but shall be in the nature of a tenancy in common.

Nothing herein contained shall be construed to require or result in a transfer to or the vesting in the Unit of title to the separately Owned Tracts within the Unit Area or to the leases thereon, other than the right to use and operate the same to the extent set out in this Plan of Unitization; nor shall the Unit be regarded as owning any of the Unit Production. The Unit Production and the proceeds from the sale thereof shall be owned by the several persons to whom the same is allocated under this Plan of Unitization. All property, real or personal, acquired, held or possessed for use in the operation of the Unit Area shall be the property of the Lessees as their interests may appear under this Plan of Unitization, subject, however, to the rights and powers herein granted the Unit and the Unit Operator.

The amount of the Unit Production allocated to each Separately Owned Tract and only that amount, regardless of the well or wells in the Unit Area from which it may be produced, and regardless of whether it be more or less than the amount of the production from the well or wells, if any, on any such Separately Owned Tract shall, for all intents, uses and purposes, be regarded and considered as production from such Separately Owned Tract.

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Operations carried on, under and in accordance with this Plan of Unitization shall be regarded and considered as a fulfillment of and compliance with all the provisions, covenants and conditions, express or implied, of the several oil and gas mining leases upon lands included within the Unit Area, or other contracts pertaining to the development thereof, to the same extent that the development and operation of and the production of Oil and Gas from each of the several Separately Owned Tracts within the Unit Area would have constituted a fulfillment of and compliance with such leases and contracts. Wells drilled or operated on any part of the Unit Area, no matter where located, shall for all purposes be regarded as wells drilled on each Separately Owned Tract within the Unit Area.

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VII.

ALLOCATION OF UNIT PRODUCTION

All Unit Production, except so much thereof as is used in the development and operation of the Unit Area, including repressuring, pressure maintenance and other operations carried on in accordance with this Plan of Unitization, or is unavoidably lost, shall be apportioned among and allocated to the several Separately Owned Tracts within the Unit Area in accordance with the percentage and division of interest set forth and shown in "Exhibit B" hereto attached and made a part hereof.

Except as may be otherwise authorized or provided in this Plan of Unitization, the Unit Production allocated to each Separately Owned Tract shall be distributed among or the proceeds thereof paid to the several persons entitled to share in the production from such Separately Owned

Tract in the same manner, in the same proportions, and upon the same conditions that they would have participated and shared in the production from such Separately Owned Tract, or the proceeds thereof, had not the Unit been organized, and with the same legal force and effect.

Except as may be otherwise authorized or provided in this Plan of Unitization, and provided adequate provisions are made for the receipt thereof, the share of the Unit Production allocated to each separately Owned Tract shall be delivered in kind to the persons entitled thereto by virtue of ownership of oil and Gas Rights therein or by purchase from such owners, subject, however, to the right of the Unit Operator to withhold and sell the same in payment of Unit Expense pursuant to this Plan of Unitization, and subject further to the right of the Unit Operator to take and use a portion thereof as hereinafter provided. Persons so entitled to take and receive in kind any portion of the Unit Production shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided the same are so constructed, maintained and operated as not to interfere with the operations carried on pursuant hereto.

To the extent that any person entitled to take and receive in kind any portion of the Unit Production shall fail to take and receive the same currently as and when produced, the Unit Operator, as agent and for the account and at the expense of such person, is authorized to market and sell or itself purchase, at not less than the market price prevailing at the time of such sale or purchase, the portion of Unit Production not so taken in kind by the person entitled to take and receive the same. Proceeds of the Unit Production so sold, or purchased by the Unit Operator, shall be paid by the Unit Operator to the person or persons for whose account the same is so marketed.

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The person or persons receiving in kind the Unit Production allocated to any Separately Owned Tract or receiving the proceeds of such Unit Production, if the same is sold or purchased by the Unit Operator, shall be responsible for the payment of, and shall indemnify the Unit, the other Lessees and the Unit Operator against any liability for, any and all royalties, overriding royalties, production payments, gross production taxes and any and all other payments and taxes chargeable against or payable out of the Unit Production which is received in kind by, or the proceeds of which are paid to, such person or persons, and neither the Unit nor the Unit Operator shall have any responsibility or liability for payment of such royalties, overriding royalties, production payments, gross production taxes or the other payments or taxes.

If at any time the title or right of any person claiming the right to receive in kind all or any portion of the Unit Production allocated to a Separately Owned Tract is in dispute or is disapproved by the Unit Operator, the Unit Operator in its discretion may either (a) withhold and market, or itself purchase the portion of the Unit Production, title to which is in dispute or is disapproved, and impound the proceeds thereof until such time as the title of right thereto is established, by final judgment of a court of competent jurisdiction or otherwise to the satisfaction of the Unit Operator, whereupon, the proceeds so impounded shall be paid, without interest, to the person or persons rightfully entitled thereto, or (b) may require that the person or persons to whom such Unit Production is delivered, or to whom the proceeds thereof are paid, furnish security for the proper accounting therefor to the rightful owner or owners in the event the title or right of such person or persons shall fail, in whole or in part.

Subject to the limitations and conditions set out in "Exhibit D" hereto attached with respect to residue gas, the Unit Operator shall have the right to take and utilize so much of the Unit Production as may be necessary or desirable in the development and operation of the Unit Area, including but without being limited to, the use of gas for repressuring, pressure maintenance or other operations carried on in accordance with this Plan of Unitization. No royalties, overriding royalties, production payments or other payments (other than as may be provided in "Exhibit D" hereto attached) shall be payable upon or with respect to that portion of the Unit Production so taken and utilized by the Unit Operator or which may be lost in handling or otherwise without want of due diligence on the part of the Unit Operator.

VIII.

OPERATING COMMITTEE

(1) An Operating Committee is hereby created to consist of one representative to be designated by each Lessee within the Unit Area, pro-

vided that an individual Lessee may himself be a member of the Committee. Such designation shall be in writing and with respect to the representative to participate at the organization meeting of the Committee shall be presented at such meeting, or if thereafter made, shall be filed with the Secretary of the Operating Committee. Any such Lessee may in like manner (a) designate an alternate representative on the Operating Committee, who, in the absence of the Lessee or its regular representative, shall have the same full

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right and power to represent the interest of such Lessee, or (b) may from time to time discharge any such regular or alternate representative and designate a new representative to act for such Lessee on the Operating Committee.

(2) The Operating Committee shall have the general overall management and control of the Unit and the conduct of its business and affairs and the operations carried on by it, and is authorized and empowered, subject to the terms and provisions hereof, to do all things necessary, proper and convenient for carrying out the terms and spirit of this Plan of Unitization and to that end, not excluding or limiting any other power or powers that may be necessary or proper for that purpose, shall have the following specific powers and duties:

(a) To adopt rules and regulations for the proper functioning of the Operating Committee, including such matters as the time and places of holding meetings, the calling thereof or the manner of taking the vote on any question all in a manner not inconsistent with the express requirements of this Plan of Unitization.

(b) To remove any Unit Operator.

(c) To select a successor to any Unit Operator.

(d) To determine the extent of drilling operations and development to be carried on by the Unit Operator, including the approval or disapproval of the contemplated drilling, deepening, plugging back, reconditioning, abandonment or the use to be made of any well or wells.

(e) To pass upon and approve or disapprove all costs and estimates of costs and any proposed expenditure by the Unit Operator; provided, that the Committee may permit without prior approval by it the incur-

ring of normal operating expense and any proposed expenditure by the Unit Operator of not more than Five Thousand ($5,000.00) Dollars; and provided further that the approval by the Operating Committee of the drilling of any well or wells or carrying out any specific project of development or operation shall mean and include the approval of all necessary expenditures in drill-

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ing, completing and equipping such well or wells or carrying out such project.

(f) To determine from time to time the rate at which and the wells from which the Unit Production shall be produced in conformity with good engineering practices and any applicable conservation laws or regulations.

(g) To pass upon, approve or disapprove the purchase, sale or other disposal of materials and equipment by the Unit Operator otherwise than in the normal course of approved operations.

(h) To approve and authorize the purchase, construction, location, abandonment, sale or other disposal of any compressor plant, gasoline plant, tank batteries, salt water disposal system or other facilities serving the Unit Area.

(i) To determine the manner in which, the location at which and the extent to which gas can best and should be injected into the reservoir to accomplish the Plan of Operation set forth in Section XV hereof.

(j) To provide for the proper auditing of the accounts of the Unit Operator with respect to the operation and development of the Unit Area.

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(k) To appoint such subcommittees as it may deem proper and requisite, as for example, an advisory committee, legal committee, engineering committee, plant committee, geological committee and tax committee to act under the authority and subject to the control of the Operating Committee consonant with the terms of this Plan of Unitization.

(l) To approve or disapprove any proposed plan of development or operation or amendment thereof required to be submitted to any regulatory body having jurisdiction of the subject matter thereof.

(m) To approve or disapprove any proposed expenditures for expert technical advice, including any extra services rendered by the Unit Operator's technical staff, not contemplated by the provisions of the accounting procedure hereto attached, marked "Exhibit C" and not covered by the overhead charges therein authorized, which overhead charges in said accounting procedure are intended to cover only normal lease development and lease operations.

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(n) To direct and consult with the Unit Operator in all matters pertaining to the duties and functions of the Unit Operator.

(o) To provide for the finances in the manner herein provided for the carrying on of the Unit Operations hereunder.

(3) Each Lessee within the Unit Area who is represented on the Operating Committee shall have a vote equal to the proportionate interest of said Lessee in the Unit determined as follows:

(a) In respect of each Separately Owned Tract, the Lessee or Lessees thereof shall have a vote equal to the percentage indicated opposite such Separately Owned Tract in "Exhibit B" hereto attached.

(b) Should there be more than one Lessee of a Separately Owned Tract, the vote in respect thereof shall be divided between such Lessees in proportion as such Lessees share in the Unit Expense chargeable to such tract.

(c) The vote of a Lessee having an interest in more than one Separately Owned Tract shall be the sum total of the votes of such Lessee in respect of all such tracts.

(4) Except as hereinafter provided, all action of the Operating Committee shall be by vote on behalf of Lessees having a majority of the voting interest in the Unit.

(5) The affirmative vote on behalf of Lessees having 66-2/3% of the total voting interest in the Unit shall be necessary to authorize the following action:

(a) The removal of a Unit Operator.

(b) The expenditure of more than $100,000.00 for any one purpose, project or activity, exclusive of normal operating expenses.

(c) The abandonment of operations and dissolution of the Unit as provided in Section XXV hereof.

(6) Notwithstanding the percentage of voting interest which may be voted in favor thereof, the Unit shall not take any of the following actions if the vote on behalf of Lessees having 15% or more of the voting interest in the Unit is voted against the taking thereof:

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(a) The expenditure of more than $500,000.00 for any one purpose, project or activity, exclusive of normal operating expenses.

(b) The extension of the gas injection project described in "Exhibit E" hereto attached.

(c) The construction, purchase or other acquisition of a plant or plants for the processing of gas (including casinghead gas) for the extraction of liquefied hydrocarbons therefrom or for the conversion of gas into liquefied hydrocarbons.

The Operating Committee shall not vote on any of the actions the taking of which may be prevented by a vote on behalf of Lessees having 15% or more of the total voting interest in the Unit Area unless written notice of the time and place of the meeting and the actions to be so considered is first given to all Lessees within the Unit Area at least ten (10) days in advance of the date of the meeting.

(7) Due notice of any meeting of the Operating Committee shall be deemed to have been given to a Lessee within the Unit Area if any when such notice is deposited in the United States mails addressed to such Lessee at the address shown on the records of the Operating Committee at the time such notice is mailed as being the address of such Lessee, or, if the address of a Lessee is not shown on the records of the Operating Committee, to the last known address of such Lessee.

(8) If at any time the voting interest of a Lessee should be such as to control the action taken by the Committee, the vote of such Lessee shall not serve to carry or defeat action taken by the Committee unless such vote is supported by the vote of a majority in interest of the remaining Lessees.

(9) Minutes shall be made of all meetings of the Operating Committee and kept as a part of the permanent records of the Unit. Such minutes need not be a verbatim record of all the proceedings, but shall show and reflect (a) the names of all members present at the meeting; (b) all motions and resolutions offered or acted upon, together with the result of such action; and (c) such other formal action as may be taken by the Committee. A copy of the minutes of each such meeting shall be mailed to each member of the Committee within a reasonable time after the meeting.

(10) Notices or other communications addressed and sent to the Unit or to the Operating Committee by United States mail or telegraph in care of the Unit Operator shall be deemed to have been properly given to or served upon the Operating Committee. The Unit Operator shall promptly deliver all such notices or communications to the Chairman or Secretary of the Operating Committee.

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IX.

ORGANIZATION OF UNIT AND EFFECTIVE DATE OF PLAN

Subject to call by Lessees of record owning 50% or more in interest in and to the Unit as shown in "Exhibit B" hereto attached, the representatives designated by the several Lessees to serve on the Operating Committee shall meet at some convenient place to perfect the organization of the Operating Committee. Such meeting may be held at any time after twenty (20) days from the entry of the order of the Commission approving this Plan of Unitization. Notice of the time and place of said meeting shall be mailed at

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lease ten (10) days prior thereto to all Lessees within the Unit Area whose names and addresses are known to the Lessees calling said meeting, as ell as those Lessees who shall have within ten (10) days from the entry of said order notified the Secretary of the Commision in writing of their desire to be no notified of the meeting. Any Lessee within the Unit Area desiring notice of such meeting may file a statement of such desire with the Secretary of the Commission, giving its name and the address to which it desires the notice to be sent.

The Operating Committee shall organize by selecting a Chairman, a Vice-Chairman, a Secretary and such other officers as to the Committee may seem proper. The Chairman and Vice-Chairman shall be selected from among the members of the Operating Committee. The Secretary and other officers may or may not be members of the Committee. The Chairman shall preside at all meetings of the Operating Committee when he is present and shall be the Chief Executive Officer of the Unit. The Vice-Chairman shall perform all duties of the Chairman in the absence of the Chairman. The Secretary shall keep and maintain all the records of the Committee and shall also be Secretary of the Unit. Such officers shall serve at the will of the Operating Committee and perform such other duties as are delegated to them by the Operating Committee.

Upon completion of its organization, the Operating Committee shall proceed to make plans and preparations and take such steps as are necessary for the taking over of the unitized operations and further development of the Unit Area by the Unit, and shall in advance thereof fix the time when the Unit will take over such operation and development, and give the Lessees within the Unit Area reasonable notice thereof. The time so fixed shall not be less

than sixty-one (61) days after the entry of the order of the Commission approving this Plan of Unitization nor more than three months after the time when said order shall have become final.

The time when the Unit takes over the operation and further development of the Unit Area shall be the Effective Data of this Plan of Unitization.

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In the event the Unit shall fail to assume and take over the operation of the Unit Area on or before three (3) months after the time when the order of the Commission approving this Plan of Unitization shall have become final, then and in that event the Unit shall, without further action on the part of the Operating Committee or the Commission, be dissolved and all rights and obligations under this Plan of Unitization shall be at an end, except that any and all cost and expense incurred by the Unit incident to its organization or preparatory to the taking over of the operation of the Unit Area shall be borne and paid for by the Lessees whose representatives on the Operating Committee by their vote authorizing the incurring of such expense, in proportion as the interest of each such Lessee in and to the Unit as set out in "Exhibit B" bears to the total interest of all such Lessees in and to the Unit as shown on said "Exhibit B". In the event the Unit assumes and takes over the operation of the Unit Area within the time so named, this Plan of Unitization shall thereafter remain in force and effect until such time as the Unit is dissolved and abandoned as provided in Section XXV hereof.

The order of the Commission approving this Plan of Unitization shall be regarded as having become final at the end of the time allowed by law for any appeal therefrom, if

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no appeal is taken, or, if an appeal is taken, then upon the final determination of any such appeal.

The Unit on or before five (5) days after the Effective Date hereof shall submit to the County Clerks of Oklahoma, Logan, Kingfisher and Canadian Counties, Oklahoma, for filing, a written declaration signed by the Chairman and Secretary of the Operating Committee, setting forth

(a) The hour, day and year on which the Unit took over the operation of the Unit Area;

(b) A description or plat of the lands included within the Unit Area; and

(c) The cause number and date of the Commission order approving this Plan of Unitization, with an appropriate reference to such order and the files of the Commission for further information concerning this Plan of Unitization.

X.

UNIT OPERATOR

Subject to the further provisions of this Plan of Unitization, operations in connection with the development and the operation of the Unit Area for Oil and Gas shall be carried on and conducted by a Unit Operator in accordance with the instructions of the Operating Committee.

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The Unit Operator shall:

(a) Conduct all such operations in a good and workmanlike manner.

(b) Keep full, true and correct books, accounts and records of its operations hereunder which shall be made available for inspection at all reasonable times by any of the Lessees within the Unit Area.

(c) Mail to each Lessee on or before the 10th day of each calendar month a full, true and correct statement of all oil produced from the Unit Area during the next preceding calendar month, the amount delivered to each Lessee or other persons entitled thereto during such preceding month and the amount on hand in Unit tankage as of 7 o'clock A. M. on the 1st day of the month in which such statement is made.

(d) Mail to each Lessee on or before the last day of each calendar month a full, true and correct statement of all gas produced from the Unit Area and processed, sold or otherwise utilized during the next preceding calendar month.

(e) Comply, to the extent of its operations within the Unit Area, with the Workmen's Compensation Laws of the State of Oklahoma and with all other valid and applicable federal and state laws and regulations.

(f) Carry such insurance as may be required by the Operating Committee.

(g) Render and pay all ad valorem taxes payable on property owned jointly by the Lessees and such other taxes as may be specifled by the Operating Committee.

(h) Keep the land and leases within the Unit Area free from liens and encumbrances occasioned by the operations of the Unit Operator save ony the lien granted the Unit and the Unit Operator under this Plan of Unitization.

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The Operating Committee may remove a Unit Operator at any time. A Unit Operator may resign only after giving the Operating Committee six months' written notice of its intention to resign, or sooner if a successor is selected and has assumed the duties of Unit Operator prior to the end of such time. Upon the removal or resignation of a Unit Operator the Operating Committee shall designate a successor Unit Operator from among the Lessees within the Unit Area.

Sohio Petroleum Company is hereby designated as Unit Operator.

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XI.

UNIT EXPENSE

The Unit Operator in the first instance shall pay and discharge all cost and expense incurred in the development and operation of the Unit Area and in the conduct of the activities and affairs of the Unit. All such cost and expense incurred in the development and operation of the Unit Area shall be in accordance with the Accounting Procedure hereto attached, marked "Exhibit C" and made a part hereof. All other costs and expense shall be only such sums as are approved by the Operating Committee.

All such Unit Expense as it accrues shall be charged to the several Separately Owned Tracts in the Unit Area in proportion to the percentage of interest of such tracts in and to the Unit as set forth and shown in "Exhibit B" hereto attached.

Except as may be otherwise hereinafter specifically provided, a Lessee or Lessees obligated or responsible for

the cost and expenses of operating a Separately Owned Tract for Oil and Gas in the absence of unitization shall, in the same proportion and to the same extent, be chargeable with and responsible for the payment of the Unit Expense charged against such Separately Owned Tract.

On or before the last day of each calendar month, the Unit Operator shall mail to each Lessee within the Unit Area a statement of all charges and credits for the preceding calendar month (which statement shall itemize all charges and credits to investment account and shall properly classify all other charges and credits) and of the amount due from or to each Lessee in respect of its interest in the Unit Area. If the Unit Operator so elects, such statement of account may also include a charge by way of an advance of the proportionate part of the estimated Unit Expense for the ensuing month chargeable to the Lessee against whom such statement is rendered, using as a basis therefor the budget hereinafter provided for. Except as may be otherwise provided herein, each Lessee chargeable with the payment thereof shall, within fifteen (15) days from the mailing of such statement, pay to the Unit Operator the amount thereof. If not paid when due, the unpaid balance shall bear interest at the rate of 6% per annum until paid. Payment of any such statement shall not prejudice the right of any Lessee to protect or question the correctness thereof; provided, the Unit Operator shall not be required to adjust any item of charge or credit unless a claim therefor has been presented in writing within six (6) months after the approval by the Operating Committee of the annual audit for the period in which the charge or credit was made.

Before or as soon as practical after the Effective Date hereof, the Operating Committee, acting in conjunction with the Unit Operator,

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shall prepare a budget of estimated Unit Expense for the remainder of the calendar year and on or before the first day of each December thereafter shall prepare a budget of estimated Unit Expense for the ensuing calendar year, which budgets shall set forth the estimated Unit Expense by quarterly periods. Unless otherwise specified in the budget, it shall be presumed for the purpose of advance billings as aforesaid, that the estimated Unit Expense for each month of a quarterly period shall be one-third (1/3) of the estimate for the quarterly period. Budgets so prepared shall be estimates only and shall be reviewed by the Operating Committee and Unit Operator at least once each quarter and adjusted and corrected if it shall appear that an adjustment or correction is proper. A copy of each such budget and adjusted budget shall be promptly furnished each Lessee within the Unit Area.

Any Lessee, other than an Unqualified Subscriber, who does not elect to pay its proportionate share of the Unit Expense, shall not be personally obligated for the payment thereof, but the amount thereof or such portion thereof as such Lessee shall elect not to pay, together with interest thereon at the rate of 6% per annum, shall be carried and shall be payable, so far as such Lessee is concerned, as follows:

(a) So much of said charges as is made up of current operating costs, as distinguished from items of investment, together with interest thereon, shall be payable out of proceeds from all Unit Production to the credit of the interest or interests therewith.

(b) So much of said charge as is made up of items of investment, together with interest thereon, shall be payable out of 50% of the net proceeds of the Unit

Production to the credit of the interest or interests chargeable therewith after deducting the charge for Operating costs under subparagraph (a) last above.

(c) All credits to any such Lessee on account of the sale or other disposal of surplus material or equipment or otherwise shall be applied against any such unpaid Unit Expense charged against such Lessee.

Amounts so carried as aforesaid, shall be billed to and paid by the Lessees who sign this Plan of Unitization as Unqualified Subscribers, in the proportion that the interest of each in the Unit bears to the total interests in the Unit of all of the Unqualified Subscribers to this Plan of Unitization, Lessees so paying the same shall be reimbursed therefor, together with interest thereon, as and when the amounts so carried and the interest thereon are collected from the the credit of the interest or interests chargeable therewith.

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The Unit shall have a first and prior lien upon the leasehold interest (exclusive of a 1/8 royalty interest) in and to each Separately Owned Tract, the interest of the owners thereof in and to the Unit Production and all equipment in possession of the Unit, to secure the payment of the Unit Expense and other items of cost charged to and against such Separately Owned Tract, provided such lien may be enforced as against overriding royalty, oil and gas payments, royalty interests in excess of a 1/8 of the production, or other interests which otherwise are not chargeable with such costs, only in the event the owner of the interest or interests primarily responsible fails to pay such Unit Expense when due, and the production to the credit thereof is insufficient for that purpose. In the event the owner of any

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royalty interest, overriding royalty, oil and gas payment or other interest which under the Plan of Unitization is not primarily responsible therefor pays and part of such Unit Expense for the purpose of protecting such interest or the amount of such Unit Expense in whole or in part is deducted from the Unit Production to the credit of such interest, the owner thereof shall, to the extent of such payment or deduction, be subrogated to all of the rights of the Unit and of the Unit Operator with respect to the interest or interests primarily chargeable with such Unit Expense. A one-eighth (⅛) part of the Unit Production allocated to each Separately Owned Tract shall in all events be regarded as royalty to be distributed to and among the proceeds thereof paid to the royalty owners free and clear of all Unit Expense and free of any lien therefor. The lien hereinabove provided for shall be for the use, benefit and protection of Unit Operator or other Lessees or persons entitled to receive or share in the monies, the payment of which is secured thereby, and in the event of failure of the Unit to enforce such lien, the Unit Operator or other person entitled to the benefit thereof, shall be subrogated to the lien rights of the Unit, including the right of foreclosure.

In the event of a failure of any Lessee to pay its share of the Unit Expense when due, and also in the case of a Lessee who elects to be carried as aforesaid, the Unit Operator shall be entitled to take and market, or itself purchase the Unit Production to the credit of such Lessee or to the credit of the interest or interests chargeable with or subject to the lien of such Unit Expense, or to otherwise collect and receive the proceeds from the sale thereof, and shall apply all such sums so collected against the delinquent or unpaid Unit Expense due from such Lessee or interest, the balance of such proceeds, if any, to be paid to the Lessee or other person entitled thereto. The Unit Operator may like-

wise take any other credit due any such Lessee or interest and apply the same against sums due from such Lessee or interest for Unit Expense.

Any and all income and credits received by Unit Operator on account of Unit Operations hereunder, from whatever source received, shall currently be accounted for and credited to the Lessees or interests entitled to credit therefor.

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XII.

INITIAL ADJUSTMENT OF INVESTMENT

Upon the Effective Date hereof the Unit shall assume control and management of the further development and operation of the Unit Area, and, except as may be otherwise herein provided, each Lessee within the Unit Area shall deliver possession to the Unit Operator of (a) all wells within the Unit Area, (b) all lease and other operating equipment used in the operation of such wells, and (c) all production and well records and other pertinent data pertaining thereto.

1. *Wells (Exclusive of Casing and Equipment)*

Each separately Owned Tract on which is located, on the Effective Date, a producing well in the Hunton Lime Formation shall be given credit for a completed well.

Any well being drilled, repaired, deepened or plugged back to the Hunton Lime Formation within the Unit Area on the Effective Date may be completed by the Lessee or Lessees of the Separately Owned Tract on which such well is located and upon the completeion thereof as a producing

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well in the Hunton Lime Formation the Separately Owned Tract shall be given credit for a completed well.

For the purpose of adjustment of well investment, as hereinafter provided, the cost of drilling and completing (exclusive of casing, tubing and other equipment) a well within the Unit Area shall be deemed to be Fifty Thousand Dollars ($50,000), and the total cost of drilling and completing (exclusive of casing, tubing and other equipment) all wells within the Unit Area shall be the sum of Fifty Thousand Dollars ($50,000) multiplied by the number of completed wells credited to Separately Owned Tracts pursuant to the next two preceding paragraphs hereof.

Each Separately Owned Tract which is not credited with a completed well as aforesaid, shall be charged with a percentage of said total cost of drilling and completing (exclusive of casing, tubing and equipment) all wells within the Unit Area, equal to the percentage of interest of such Separately Owned Tract in the Unit as shown in "Exhibit B" hereto attached. The amount of such charge shall be paid, draw interest and in other respects be treated and regarded as any other item of Unit Expense charged against such a Separately Owned Tract, except, that unless the Lessee or Lessees thereof shall elect to voluntarily pay the same, the amount of such charge, together with the interest thereon, shall, both as to Qualified and Unqualified Subscribers, be payable only out of the proceeds of Unit Production to the credit of such Tract. Amounts so collected on account of any such charge so made against Separately Owned Tracts not credited with completed wells, as aforesaid, shall be credited in equal amounts to the Separately Owned

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Tracts given credit for completed wells, as aforesaid, and

paid to the Lessees thereof in proportion to the ownership of such Lessees in and to such wells.

Except as hereinabove provided, no remuneration shall be paid by or to the Lessee or Lessees of any Separately Owned Tract on account of wells (exclusive of casing, tubing and other equipment) drilled or being drilled within the Unit Area on the Effective Date.

2. *Lease and Operating Equipment*

As of the Effective Date hereof all lease and other operating equipment (exclusive of warehouses, lease houses, camps and office buildings) used in the operations of wells taken over by the Unit, including by way of example, but not thereby excluding, other equipment of a like or different kind, casing and tubing in the wells, derricks, tank batteries, separators, rods, pumps, flow lines, water lines, gas lines, etc., shall be delivered to and taken over the by the Unit. All equipment not so taken over shall remain the separate property of the several owners thereof. The acquisition of existing warehouses, lease houses, camps, or office buildings considered desirable to the operation and development of the Unit Area shall be by negotiation and separate contract of purchase with the owner or owners of such warehouses, lease houses, camps and offiice buildings.

An accounting for the lease and operating equipment so transferred to and taken over by the Unit shall be had as between the owners thereof and all Lessees within the Unit Area, on the basis of the value thereof, determined as follows:

(a) Tubular goods (2" and over), fittings, machinery and other equipment in sound and serviceable condition shall be valued at 75% of the price of new materials of like kind.

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(b) Tanks, derricks, buildings and other equipment involving erection costs shall be valued at not more than 75% of knocked down new prices for the materials comprised therein.

(c) Other materials, machinery and equipment in serviceable condition but requiring repair or reconditioning shall be valued at 50% of new prices for like materials.

(d) For the purposes of said valuation, the prices of new materials shall be determined on the basis of prices prevailing on the Effective Date at the nearest reliable supply stores or f. o. b. railway receiving point, and proper charges and credits entered against the several Separately Owned Tracts, all to the end that on and after the Effective Date hereof each of the several Lessees within the Unit Area instead of separately owning the equipment delivered to the Unit by such Lessees, will

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have exchanged the same for an undivided interest in and to all the equipment so taken over and acquired by the Unit and will have paid or have been paid, as the case may be, for any difference in value. The amount of any net charge made against a Separately Owned Tract under this paragraph shall be treated and regarded in all respects the same as any other charge for Unit Expense chargeable to such tract.

3. *Wells and Equipment of Non-Subscribers*

Notwithstanding the foregoing provisions, the Unit shall not take over the well or wells or lease and operating equipment of any Lessee who has not subscribed to this Plan of

Unitization without the consent of such Lessee, except to the extent permitted by law. However, from and after the Effective Date, any such well or wells not taken over by the Unit shall not be operated by the owner or owners thereof for the production of Oil and Gas from the Unit Area, and the Separately Owned Tract on which any such well is located shall not be given credit for a completed well pursuant to subdivision 1 hereof unless and until such well is transferred to the Unit as a producing well in the Hunton Lime formation.

4. *Salt Water Disposal System*

The Salt Water Disposal System of the West Edmond Salt Water Disposal Association shall be taken over by the Unit at a valuation equal to the actual cost thereof to said Association, and the several Separately Owned Tracts shall be charged therewith on the basis of their respective percentage interests in the Unit as shown on said Exhibit "B" and the Lessees who are members of said Association shall be credited therewith in proportion to their respective interests in said System.

5. *Separately Owned Tracts Not Credited With Wells*

The entire net proceeds of Unit Production accruing to the interest or interests chargeable with Unit Expense charged against a Separately Owned Tract not credited with a completed well, as above provided, and remaining after payment of current operating expenses charged against such tract, shall be applied in payment of the charges herein provided to be made against such tract with respect to well investment and lease and operating equipment and the salt water disposal system.

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XIII.

OIL IN LEASE TANKAGE AS OF EFFECTIVE DATE

A proper and timely gauge shall be made of all lease or other tanks taken over by the Unit to ascertain the amount of oil in such tanks

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at the time the Unit assumes and takes over the development and operation of the Unit Area. So much of such oil as is legally produced shall remain and be the property of the parties entitled thereto had not the Unit been created, and upon request, shall be delivered in kind to persons entitled thereto, or in the absence of such request, shall be sold by the Unit Operator for the credit of such persons at not less than the prevailing market price and the proceeds thereof paid to such persons.

XIV.

PROCESSING AND COMPRESSION OF GAS

The gas produced from the Unit Area, except so much thereof as is used in the development and operation of the Unit Area without being processed or is unavoidably lost, shall be processed and the products thereof, including both liquid products and residue gas, distributed and handled in the manner set out in Exhibit "D" hereto attached and made a part hereof.

XV.

PLAN OF OPERATION

From and after the effective date hereof the Unit Area shall be developed and operated as a unit as follows:

(a) As soon as reasonably practicable after the Effective Date hereof and before any more extensive pressure maintenance operations are carried on, the Unit shall make the necessary preparations therefor and with diligence and in accordance with the requirements of Exhibit "E" hereof establish and engage in the pilot gas injection projects therein described to determine the extent to which, the manner in which, the conditions under which and the location or locations at which gas can best be injected into the Unit Area for the efficient recovery within economic limits of the greatest quantities of oil therefrom.

(b) Pending a determination of the results of the pilot gas injection projects referred to in Paragraph (a) above and until a pressure maintenance program is inaugurated, wells making water shall in accordance with good engineering practice be so produced as to minimize water encroachment into the Unit Area. Thereafter, the production of Oil and Gas from the different parts of the Unit Area shall be regulated in such manner as to retard, control or effectively utilize such water encroachment, in such manner and to such extent as may be found reasonably possible and economically advisable from time to time.

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(c) To the extent and in the manner determined by the Operating Committee to be economically profitable on the basis of the information developed by the aforesaid pilot gas injection projects, and subject to the provisions of subsection 6 of Section VIII of this Plan of Unitization and Exhibit "E" hereto attached, pressure maintenance or repressuring operations through the return of gas to the reservoir may, in accordance

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with good engineering and production practices, be engaged in by the Unit.

(d) The oil produced from the Unit Area shall be produced from those wells in the Unit Area from which the same can be obtained with the smallest loss or dissipation of reservoir energy reasonably possible under practical operating conditions as they may exist from time to time.

(e) Gas wells and wells which produce oil with gas-oil ratios found to be excessive in relation to the gas-oil ratios of other wells producing oil from the Unit Area shall be shut in or the production therefrom restricted in such manner as to make the most effective utilization of the gas energy of the reservoir reasonably possible under practical operating conditions as they may exist from time to time.

(f) Gas (other than gas produced in connection with the production of oil) shall be produced from the Unit Area only at such time or times and in such manner as in the judgment of the Operating Committee such gas may be produced without materially decreasing the quantity of oil economically recoverable from the Unit Area.

(g) Such other unitized method or methods of operation as may from time to time be determined by the Operating Committee to be feasible, necessary or desirable to efficiently and substantially increase the ultimate recovery of Oil and Gas from the Unit Area, provided the estimated additional cost thereof does not exceed the value of the additional Oil and Gas to be so recovered.

Except as otherwise provided in paragraph (a) above or in Exhibit "E" with respect to the pilot gas injection projects, nothing contained herein shall prevent the Unit from abandoning or changing in whole or in part any particular method or methods of operation, if and in the event, at such time, and to the extent that any such method of operation as applied to the Unit Area is, in the best judgment of the Operating Committee, no longer in accord with good engineering or production practices.

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XVI.

RIGHT TO INFORMATION REGARDING UNIT OPERATIONS

Each and all Lessees within the Unit Area shall have access to the entire Unit Area at all reasonable times to inspect and observe operations of every kind and character on the property, and shall have access at all reasonable times to any and all information pertaining to wells drilled, production secured, marketing of Unit Production and to the books, records and vouchers relating to the operation of the Unit Area. Unit Operator shall, upon request, furnish to any such Lessee tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month and any other pertinent information pertaining to the Unit Area or development and operation thereof. All of the rights herein granted shall apply with equal force to the construction and operation by the Unit of any repressuring or pressure maintenance plant or other facilities in connection therewith.

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XVII.

LIABILITY

No member of the Operating Committee or any other committee shall be personally liable or individually responsible for any act, error, default or omission as a member of such committee or committees.

Neither the Unit nor the Unit Operator shall be liable or responsible under any of the provisions of this Plan of Unitization for any acts or omissions resulting from causes beyond the control of the Unit or such Unit Operator, or other causes which by the exercise of due diligence could not have been prevented or overcome.

Unit Operator shall not be liable or responsible for any damage to the Unit Area or the property, equipment or facilities used in the development and operation thereof, or for the loss of any production arising out of its operation of the Unit Area, except only for bad faith or gross negligence in connection therewith.

If and in the event, nothwithstanding the foregoing provisions of this section, the Unit, the Unit Operator or any member of the Operating Committee is held liable by a court of competent jurisdiction for any matter or thing for which it is herein provided the Unit or person so named shall not be liable, the amount of such liability as finally determined shall thereupon be treated, regarded and paid as an item of Unit Expense.

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XVIII.

CHANGE OF INTEREST

All transfers, assignments and conveyances of any interest in, or with respect to, any of the Separately Owned Tracts within the Unit Area shall be subject to the terms, provisions and conditions of this Plan of Unitization, but shall not be binding on the Unit or the Unit Operator unless and until a photostatic or certified copy of the recorded instrument evidencing such change of ownership has been delivered to the Unit Operator. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the person or persons acquiring such interest the obligation of the assignor or grantor with respect to the interest so transferred and shall likewise operate to give and grant to the person or persons acquiring such interest all benefit attributable hereunder to such interest.

XIX.

AUDITS

The Operating Committee shall cause an audit to be made of the books, accounts and records of the Unit Operator in respect to matters pertaining to the Unit and the operation of the Unit Area at least once each year and shall furnish a copy thereof to each of the Lessees within the Unit Area. Each such audit shall cover the period intervening since the last audit. The audit may be made by an auditor or auditing committee from the accounting staff of one or more of the Lessees within the Unit Area, or by an independent auditor or auditors employed by the Unit to make such audit.

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XX.

RIGHTS OF WAY

The Unit shall have a servitude and right of way on, over and across all of the lands in the Unit Area for the purpose of laying, constructing, building, using and maintaining, operating, changing, repairing and removing pipelines, tanks, telegraph and telephone lines, water lines, and other facilities for the development and operation of the Unit Area for Oil and Gas and for the gathering, handling and disposal of the Unit Production; provided, the Unit shall pay all damages to growing crops, timber, fences, improvements and structures on the land resulting from the exercise of the rights and privileges granted to it in this section.

XXI.

CLAIMS, SUITS AND JUDGMENTS AGAINST INDIVIDUAL OWNERS OF UNIT AREA

In the event claim is made against any of the Lessees of the Unit Area or any of such Lessees are sued on account of any matter or

thing growing out of the development and operation of the Unit Area by the Unit and over which such Lessee or Lessees have no control because of the rights, powers and duties herein granted the Unit, said Lessee or Lessees shall immediately notify the Operating Committee in writing of such claim or suit. The Operating Committee shall assume and take over the further handling of such claim or suit

and in pursuance thereof may select an attorney or attorneys for that purpose, who, subject to the directions of the Operating Committee, shall have the exclusive right to direct and control the settlement or defense thereof. Should such claim be settled, final judgment be entered against any such defendant or defendants upon said cause of action and any such defendant is required to pay or satisfy such judgment or expense of litigation in whole or in part, the amount of such settlement or judgment shall be treated, regarded and paid as any other item of Unit Expense. Nothing herein contained shall apply to or relieve any such Lessee or Lessees of liability which may have accrued prior to the Effective Date of this Plan of Unitization.

XXII.

TITLE INFORMATION

Upon request of either the operating committee or the Unit Operator, the Lessees of the several Separately Owned Tracts shall furnish and make available to the Unit or the Unit Operator, as the case may be, an abstract brought to the date of the request, together with all other title information in the possession and files of such Lessees, title opinions, original or true copies of all leases, assignments, contracts, curative matter and all other data and information pertaining to or otherwise affecting titles to the Oil and Gas Rights in and to the Unit Area.

XXIII.

OTHER FORMATIONS

It is understood that the common source of supply described herein as the Unit Area, namely, the Hunton Lime

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Formation of the West Edmond Field, underlies and may overlie other reservoirs or common sources of supply of Oil and Gas not a part of the aforesaid Hunton Lime Formation or a part of the Unit Area of the Unit created hereby. Except as specifically provided in this Plan of Unitization, all rights of any and all persons in and to such other reservoirs or common sources of supply of Oil and Gas and the production therefrom, together with the right of ingress and egress and the use of the surface of the Unit Area for the exploration, development and operation of such other reservoirs or common sources of supply of Oil and Gas, are expressly reserved unto the separate owners thereof and shall remain unaffected by the creation of the Unit and the adoption of this Plan of Unitization, all to the same extent as if this Plan of Unitization had not been adopted except

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that in the exercise of such rights the owners thereof shall have due regard for the rights granted the Unit with respect to its operations hereunder. Likewise, any reference in this Plan of Unitization to a Separately Owned Tract or to the Unit Area, although in general terms broad enough to include the surface and all underlying common sources of supply of Oil and Gas, shall have reference to the lands embraced within such Separately Owned Tract and within the Unit Area only in relation to the Hunton Lime Formation of the West Edmond Field.

XXIV.

ABANDONMENT OF WELLS

If the Operating Committee at any time desires to abandon any well and salvage the casing and the other

equipment that is a part of the well, the Lessee or Lessees of the Separately Owned Tract on which such well is located shall be notified in writing of such decision and shall have and be granted thirty (30) days from receipt of such notice within which to elect to take over such well for the purpose of completing the same in some other formation not a part of the Unit Area. Any such Lessee electing to take over such a well shall pay to the Unit Operator the fair market value of the casing and other equipment comprised in the well, less the reasonable cost of salvaging the same, and shall agree to assume full responsibility for the proper plugging and abandonment thereof at such time as the well is ultimately abandoned. No such well shall be operated or used for the production of Oil and Gas from the Unit Area and to that end the Lessee taking over such a well shall immediately cause the Hunton Lime Formation in such well to be sealed off in a manner satisfactory to the Operating Committee. In the event the Lessee or Lessees of such a Separately Owned Tract do not elect to take over such well, the Unit Operator shall proceed to properly plug and abandon the same and salvage the casing and other equipment therefrom.

XXV.

ABANDONMENT OF OPERATIONS AND DISSOLUTION OF UNIT

At such time as it is determined by the Operating Committee that Unit Production can no longer be produced from the Unit Area in paying quantities the further development and operation of the Unit Area by the Unit shall be abandoned, the Unit dissolved and its affairs wound up.

Upon abandonment of Unit Operations,

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(a) All rights in and to the several Separately Owned Tracts shall revert to the separate owners and Lessees thereof;

(b) The owner or Lessee of a Separately Owned Tract desiring to take over and continue to operate a well located on such Separately Owned Tract may do so by paying the fair market value of the casing and

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other equipment comprised in the well, less the reasonable cost of salvaging the same and by agreeing to properly plug and abandon the well at such time as it is ultimately abandoned;

(c) With respect to all wells not taken over by the owner or Lessees of the Separately Owned Tracts as aforesaid, the Unit Operator shall salvage so much of the casing and other equipment therein as can economically and reasonably be salvaged and shall cause such well to be properly plugged and abandoned;

(d) The salvaging, liquidation or other distribution of assets and properties used in the operation of the Unit Area shall be in a manner determined by the Operating Committee; provided, any Lessee desiring to take its share of the physical assets or any portion thereof in kind may do so. All such assets and property shall belong to the several Lessees in proportion to their repective interests in the Unit.

At such time as the Unit Operations are abandoned and the affairs of the Unit wound up, the Unit shall submit for filing a declaration to that effect with the Secretary of the Corporation Commission and with the County Clerks of Oklahoma, Logan, Kingfisher and Canadian Counties, Oklahoma, whereupon the rights, powers and duties of the Unit

shall be at an end; provided, however, that if any liability or obligation incurred prior thereto should accrue and become payable thereafter, the amount thereof shall be borne and paid as Unit Expense in the same manner as if it had accrued prior to dissolution of the Unit.

XXVI.

AMENDMENT TO PLAN OF UNITIZATION AND ENLARGEMENT OF UNIT

Any amendment of this Plan of Unitization or any enlargement of the Unit or Unit Area shall be in accordance with the provisions of Sections 11 and 12 of House Bill 339 of the 1945 Legislature of the State of Oklahoma or any amendment thereo.

XXVII.

SUBSCRIBERS

Provision is made below for the signing of this Plan of Unitization by Lessees within the Unit Area who wish to expressly signify their agreement to the terms, provisions and conditions hereof. Such Lessees may sign either as Unqualified or Qualified Subscribers. Those signing as Unqualified Subscribers agree to all the terms, provisions and conditions hereof, including the agreement to participate in carrying the Lessees who elect to be carried under the provisions of Section XI. Those signing as Qualified Subscribers agree to all the terms, provisions and conditions hereof, except that they reserve the right

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to be carried in respect to the payment of Unit Expense as is provided in Section XI and do not agree to participate in

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carrying the other Lessees who elect to be carried under the terms of said Section. This Plan of Unitization may be signed by the subscribers hereto at any time by signing the original or any counterpart hereof or may be ratified by the signing of a separate instrument in writing specifically referring hereto all with the same force and effect as if all parties had signed the same instrument. The original of this Plan of Unitization, together with all signed counterparts and all signed ratifications hereof, shall be filed with and at all times from and after the approval hereof by the Commission remain on file in the office of the Secretary of the Commission.

The signing hereof by Lessees within the Unit Area is subject to the following conditions and provisions:

(a) If an order of the Commission approving this Plan of Unitization is not entered on or before June 1, 1947, any such subscriber may revoke its execution hereof by filing written notice of such revocation with the Secretary of the Commission, if petition for aproval of this Plan of Unitization has theretofore been filed with the Commission, or by mailing such written notice to the company herein designated as Unit Operator, in the event such petition has not theretofore been filed, provided such notice is so filed or mailed prior to the entry of an order of the Commission approving this Plan of Unitization.

(b) Lessees executing this Plan of Unitization as Unqualified Subscribers shall not be bound hereby unless, on or before the entry of an order of the Commission approving this Plan of Unitization, this Plan of Unitization is executed by Unqualified Subscribers who, on the basis of their respective lease ownerships at the times of execution by them respectively, are charge-

able with at least fifty per cent (50%) of the Unit Expense as herein provided for.

Otherwise than as herein provided, the signing hereof by Lessees within the Unit Area shall be binding upon such Lessees, their heirs, personal representatives, successors and assigns.

UNQUALIFIED SUBSCRIBERS:

Sunray Oil Corporation

By J. K. Ellis
Vice President

.....

By.....

Attest:

W. D. Forster
Secretary

Attest:

.....

[7465]

UNQUALIFIED SUBSCRIBERS:

Sohio Petroleum Company
By Earl Wasson
Vice President

Attest:
Thos. A. Bowles Jr.
Asst. Secy.

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Mid-Continent Petroleum Corporation
By A. E. Pierce
Vice President

Attest:
A. L. Dhelldle
Asst. Secy.

Stanolind Oil and Gas. Co.
By E. F. Bullard
President

Attest:
D. A. Marker
Assistant Secretary

Phillips Petroleum Co.
By C. P. Dimit
Vice-President

Paul J. Parker
Asst. Secretary

Tide Water Associated Oil Co.
By E. H. Sarlin
Vice-President

Attest:
Y. P. Broome
Ass't. Secretary

Continental Oil Company
By W. C. MacMillan

Attest:
A. C. Frazer
Assistant Secretary

Deep Rock Oil Corporation
By Richard K. Huey
Vice Pres.

Attest:
O. O. Kerr
Secretary

Herbert J. Schmitz
J. Marshall Nye

Attest:

.....

Magnolia Petroleum Company
By R. M. Chan
Vice-President

Attest:
M. W. Patterson
Secretary

Cargill & Westcott
By Harold F. Westcott

Attest:

.....

Cities Service Oil Company
By Sam Harlan

Attest:
M. A. Wilson
Asst. Secretary

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[7466]

UNQUALIFIED SUBSCRIBERS:

Sinclair Prairie Oil Company
By J. W. Jordan
Vice President

Attest:
A. E. Barrus
Secretary

Barnsdall Oil Company
By D. R. Snow
Vice-President

Attest:
S. Altman
Asst. Secy.

Skelly Oil Company
By Hugh M. Stallcup
Vice-President

Attest:
C. O. Winn
Asst. Secy.

Amerada Petroleum Corporation
By Earle S. Porter
Vice President

Attest:
L. E. Etchison

Champlin Refining Company
By Joe N. Champlin
Pres.

Attest:
Granvle Wilkinson
Secy.-Treas.

Anderson-Prichard Oil Corporation
By L. H. Prichard Jr.
Vice President

Attest:
Neale Boyd

Oil Carriers, Inc.
By William H. Atkinson, Agent

Attest:
.....

Leonard A. Chudocoff
By Joud Miller
Ofc. Mgr.

Attest:
.....

Hyman Friedlosh
By Joud Miller
Agent

Attest:
.....

The Carter Oil Company
By D. O. May

Attest:
Joseph A. Gill
Asst. Secretary

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The Atlantic Refining Company
By E. H. Blum
Vice-President

Attest:
L. A. Sunkel
Assistant Secretary

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UNQUALIFIED SUBSCRIBERS:

C. L. McMahon, Inc. C. E. Tabor
By Chas. L. McMahon Jr.

Attest:
Chas. L. McMahon, Jr.

James M. Johnson
By.....

Attest:
Earle Johnson

Kerr-McGee Oil Industries Inc.
D. A. McGee
Vice-President

Attest:
T. W. Fentem
Secretary

Gulf Petroleum Co.
By R. H. Rucker
Pres.

Attest:
D. N. Hobbs

Bluff Creek Oil Co.
By Louis R. Burnett

Attest:
S. S. Burnett
Secy.-Treas.

Deer Creek Oil Co.
By J. L. Jones

Attest:
Robert Rucker, Jr.
Sec'y.

Midstates Oil Corp.
By N. T. Gilbert

Attest:
.....

Champlin Refining Company
By N. Leavitt
Vice President

Attest:
Granvle Wilkinson
Secy.-Treas.

.....
By.....

Attest:
.....

.....
By.....

Attest:
.....

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[7468]

UNQUALIFIED SUBSCRIBERS:

Allied Oil Company Inc.
By Chas. W. Scott
Atty. in Fact.

Attest:

.....

Warren Wright
By Chas. W. Scott
Agent

Attest:

.....

.....
By.....

Attest:

.....

.....
By.....

Attest:

.....

Frank Russell
By.....

Attest:

.....

W. E. Stegmeir
By.....

7468

Witness:
K. Cotter

F. G. Fox—W. J. Fox
By W. E. Stegmeir

Attest:
.....

.....
By.....

Attest:
.....

.....
By A. Gentonsky

Attest:
.....

Peppers Refining Co.
By Chas. C. Peppers

Attest:
Joe N. Champlin

* * *

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[7470]

EXHIBIT "B"
TABLE OF PERCENTAGE PARTICIPATION IN THE UNIT

Tract	Operator	Lease	Description	Percentage Interest in Unit
1	Anderson-Prichard	Wright	NE SW 13-15N-5W	.03764030
2	Anderson-Prichard	Wright	SW SW 13-15N-5W	.08554025
3	Anderson-Prichard	Wright	SE SW 13-15N-5W	.07871646
4	Phillips	Nakvinda	SW SE 13-15N-5W	.07759948
5	Anderson-Prichard	Stewart	NW NW 24-15N-5W	.09322790
6	Anderson-Prichard	Stewart	NE NW 24-15N-5W	.10226271
7	Phillips	Storm	NW NE 24-15N-5W	.08140602
8	Anderson-Prichard	Stewart	SE NW 24-15N-5W	.10210472
9	Phillips	Storm	SW NE 24-15N-5W	.11306472
10	Phillips	Chester	NE SW 24-15N-5W	.11569014
11	Phillips	Libecayt	NW SE 24-15N-5W	.10949440
12	Phillips	Libecayt	NE SE 24-15N-5W	.09420642
13	Phillips	Bierman	NW SW 19-15N-4W	.10526350
14	Phillips	Chester	SE SW 24-15N-5W	.09868168
15	Phillips	Libecayt	SW SE 24-15N-5W	.09088301
16	Phillips	Libecayt	SE SE 24-15N-5W	.11401613
17	Phillips	Bierman	SW SW 19-15N-4W	.09998460
18	Phillips	Bierman	SE SW 19-15N-4W	.06138712
19	Anderson-Prichard	Collett	NE NW 25-15N-5W	.11436507
20	Atlantic	Trindle	NW NE 25-15N-5W	.08274248
21	Atlantic	Trindle	NE NE 25-15N-5W	.07567286
22	Sohio	Messenbaugh	NW NW 30-15N-4W	.10961688
23	Sohio	Messenbaugh	NE NW 30-15N-4W	.06890478
24	Stanolind	Christner	NW NE 30-15N-4W	.04417463
25	Anderson-Prichard	Collett	SW NW 25-15N-5W	.08498474
26	Anderson-Prichard	Collett	SE NW 25-15N-5W	.11499017
27	Atlantic	Trindle	SW NE 25-15N-5W	.11546930
28	Atlantic	Trindle	SE NE 25-15N-5W	.09374234
29	Sohio	Messenbaugh	SW NW 30-15N-4W	.07423889
30	Sohio	Messenbaugh	SE NW 30-15N-4W	.05202739
31	Stanolind	Christner	SW NE 30-15N-4W	.03271795
32	Stanolind	Christner	SE NE 30-15N-4W	.03346428
33	Barnsdall	Anderson	SW NW 29-15N-4W	.02972247
34	Phillips	Barr	NW SW 25-15N-5W	.10620613

35	Phillips	Barr	NE SW 25-15N-5W	.11335920
36	Atlantic	Trindle	NW SE 25-15N-5W	.11131247
37	Atlantic	Trindle	NE SE 25-15N-5W	.08067213
38	Cities Service	Messenbaugh	NW SW 30-15N-4W	.06809326
39	Cities Service	Messenbaugh	NE SW 30-15N-4W	.05968209
40	Phillips	Lenhart	NW SE 30-15N-4W	.03905848
41	Phillips	Lenhart	NE SE 30-15N-4W	.07144672
42	Phillips	Derr	NW SW 29-15N-4W	.02550924
43	Phillips	Barr	SE SW 25-15N-5W	.12100811

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Tract	Operator	Lease	Description	Percentage Interest in Unit
44	Atlantic	Trindle	SW SE 25-15N-5W	.11470636
45	Atlantic	Trindle	SE SE 25-15N-5W	.08237774
46	Cities Service	Messenbaugh	SW SW 30-15N-4W	.06265213
47	Cities Service	Messenbaugh	SE SW 30-15N-4W	.08926769
48	Phillips	Lenhart	SW SE 30-15N-4W	.07627050
49	Phillips	Lenhart	SE SE 30-15N-4W	.03590171
50	Phillips	Derr	SW SW 29-15N-4W	.06578083
51	Phillips	Derr	SE SW 29-15N-4W	.05020576
52	Phillips	Delbridge	NE NW 36-15N-5W	.11664066
53	Phillips	Tapp	NW NE 36-15N-5W	.08280806
54	Phillips	Cushman	NE NE 36-15N-5W	.08506391
55	Phillips	Beutler "A"	NW NW 31-15N-4W	.06468459
56	Phillips	Beutler "A"	NE NW 31-15N-4W	.08254576
57	Phillips	Burge	NW NE 31-15N-4W	.08292052
58	Phillips	Burge	NE NE 31-15N-4W	.06837084
59	Phillips	Cavan	NW NW 32-15N-4W	.06688371
60	Phillips	Cavan	NE NW 32-15N-4W	.05133021
61	Phillips	Dial	NW NE 32-15N-4W	.06546282
62	Phillips	Delbridge	SE NW 36-15N-5W	.12551779
63	Phillips	Tapp	SW NE 36-15N-5W	.08766735
64	Phillips	Tapp	SE NE 36-15N-5W	.07270130
65	Phillips	Beutler "A"	SW NW 31-15N-4W	.07412813
66	Phillips	Beutler "A"	SE NW 31-15N-4W	.10749234
67	Phillips	Burge	SW NE 31-15N-4W	.08021923
68	Phillips	Burge	SE NE 31-15N-4W	.05522151
69	Phillips	Cavan	SW NW 32-15N-4W	.05991176
70	Phillips	Cavan	SE NW 32-15N-4W	.05156431
71	Phillips	Dial	SW NE 32-15N-4W	.02208056
72	Phillips	Dial	SE NE 32-15N-4W	.02566638
73	Stanolind	State	NW SW 36-15N-5W	.10579624

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74	Tide Water	State	NE SW 36-15N-5W	.13400799
75	Phillips	Tapp	NW SE 36-15N-5W	.08613145
76	Phillips	Tapp	NE SE 36-15N-5W	.07624689
77	Phillips	Beutler "B"	NW SW 31-15N-4W	.11414422
78	Phillips	Beutler "B"	NE SW 31-15N-4W	.10754578
79	Cities Service	Ziebell	NW SE 31-15N-4W	.07956366
80	Allied	Faris	NE SE 31-15N-4W	.08935240
81	Phillips	Knuth	NW SW 32-15N-4W	.05027829
82	Phillips	Hat	NE SW 32-15N-4W	.04455007
83	Continental	Boone	NW SE 32-15N-4W	.06066380
84	Continental	Boone	NE SE 32-15N-4W	.09378222
85	Continental	Sellers	NW SW 33-15N-4W	.02033125
86	Stanolind	State	SW SW 36-15N-5W	.12540736
87	Tide Water	State	SE SW 26-15N-5W	.12223602
88	Magnolia	School Land	SW SE 36-15N-5W	.12562821
89	Magnolia	School Land	SE SE 36-15N-5W	.11925460
90	Phillips	Beutler "B"	SW SW 31-15N-4W	.11427231
91	Phillips	Beutler "B"	SE SW 31-15N-4W	.10506865

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Tract	Operator	Lease	Description	Percentage Interest in Unit
92	Cities Service	Ziebell	SW SE 31-15N-4W	.08908032
93	Allied	Faris	SE SE 31-15N-4W	.10438283
94	Phillips	Knuth	SW SW 32-15N-4W	.06677515
95	Phillips	Hat	SE SW 32-15N-4W	.05150631
96	Continental	Boone	SW SE 32-15N-4W	.05924923
97	Continental	Boone	SE SE 32-15N-4W	.08776485
98	Continental	Sellers	SW SW 33-15N-4W	.03664620
99	Continental	Sellers	SE SW 33-15N-4W	.04051622
100	Continental	Murphy "A"	SW SE 33-15N-4W	.10144955
101	Continental	M. Lenhart	SE SE 33-15N-4W	.12227135
102	Carter	McKinnis	SW SW 34-15N-4W	.12453944
103	Fox	Roush	NW NW 1-14N-5W	.11433194
104	Fox	Roush	NE NW 1-14N-5W	.13701282
105	Stanolind	Reherman "B"	NW NE 1-14N-5W	.12907341
106	Stanolind	Reherman "B"	NE NE 1-14N-5W	.12562821
107	Stanolind	Derr	NW NW 6-14N-4W	.12063709
108	Stanolind	Derr	NE NW 6-14N-4W	.11212304
109	Phillips	Clell	NW NE 6-14N-4W	.10188523
110	Phillips	Clell	NE NE 6-14N-4W	.10606058
111	Sohio	Murphy	NW NW 5-14N-4W	.09702527
112	Sohio	Murphy	NE NW 5-14N-4W	.07122740

113	Continental	H. Lenhart	NW NE	5-14N-4W	.06257795
114	Continental	H. Lenhart	NE NE	5-14N-4W	.06912309
115	Continental	McAuliff	NW NW	4-14N-4W	.05764656
116	Continental	McAuliff	NE NW	4-14N-4W	.10532540
117	Continental	Murphy	NW NE	4-14N-4W	.11122905
118	Continental	Murphy	NE NE	4-14N-4W	.11922368
119	Carter	Blehm	NW NW	3-14N-4W	.13330923
120	Carter	Blehm	NE NW	3-14N-4W	.12046041
121	Carter	Whisler	NW NE	3-14N-4W	.15664382
122	Phillips	Abbott	SW NW	1-14N-5W	.10266023
123	Phillips	Abbott	SE NW	1-14N-5W	.12849921
124	Stanolind	Reherman "B"	SW NE	1-14N-5W	.13280570
125	Stanolind	Reherman "B"	SE NE	1-14N-5W	.13277699
126	Stanolind	Derr	SW NW	6-14N-4W	.11919956
127	Stanolind	Derr	SE NW	6-14N-4W	.11449877
128	Phillips	Clell	SW NE	6-14N-4W	.11012482
129	Phillips	Clell	SE NE	6-14N-4W	.11219194
130	Sohio	Murphy	SW NW	5-14N-4W	.08838336
131	Sohio	Murphy	SE NW	5-14N-4W	.08539399
132	Continental	H. Lenhart	SW NE	5-14N-4W	.08469833
133	Continental	H. Lenhart	SE NE	5-14N-4W	.07317782
134	Continental	McAuliff	SW NW	4-14N-4W	.10703298
135	Continental	McAuliff	SE NW	4-14N-4W	.11919956
136	Phillips	Kosar	SW NE	4-14N-4W	.14866510
137	Phillips	Kosar	SE NE	4-14-4W	.18350311
138	Carter	Blehm	SW NW	3-14N-4W	.15615221

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Tract	Operator	Lease	Description		Percentage Interest in Unit
139	Carter	Blehm	SE NW	3-14N-4W	.16212963
140	Carter	Whisler	SW NE	3-14N-4W	.16692641
141	Tide Water	Balyeat	NE SW	1-14N-5W	.12568342
142	Stanolind	Abercrombie	NW SE	1-14N-5W	.11909220
143	Stanolind	Abercrombie	NE SE	1-14N-5W	.13055246
144	Stanolind	J. Kelly "B"	NW SW	6-14N-4W	.11896478
145	Stanolind	J. Kelly "B"	NE SW	6-14N-4W	.09936352
146	Phillips	Edmond	NW SE	6-14N-4W	.08461900
147	Phillips	Edmond	NE SE	6-14N-4W	.09843732
148	Cities Service	J. O'Brien "B"	NW SW	5-14N-4W	.05628836
149	Cities Service	J. O'Brien "B"	NE SW	5-14N-4W	.10040676
150	Continental	Mason	NW SE	5-14N-4W	.09199426
151	Continental	Mason	NE SE	5-14N-4W	.09290037

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152	Sohio	Whisler	NW SW	4-14N-4W	.12227135
153	Sohio	Whisler	NE SW	4-14N-4W	.13663076
154	Continental	Seyller	NW SE	4-14N-4W	.20932883
155	Continental	Seyller	NE SE	4-14N-4W	.19395795
156	Cities Service	Seyller	NW SW	3-14N-4W	.21860039
157	Cities Service	Seyller	NE SW	3-14N-4W	.18759106
158	Carter	Hoover	NW SE	3-14N-4W	.14890538
159	Carter	Hoover	NE SE	3-14N-4W	.14528350
160	Anderson-Prichard	Balyeat	SE SW	1-14N-5W	.12503193
161	Stanolind	Reherman "A"	SW SE	1-14N-5W	.12993471
162	Stanolind	Reherman "A"	SE SE	1-14N-5W	.11192966
163	Stanolind	J. Kelly "B"	SW SW	6-14N-4W	.11098833
164	Stanolind	J. Kelly "A"	SE SW	6-14N-4W	.11766061
165	Phillips	Edmond	SW SE	6-14N-4W	.09970837
166	Phillips	Edmond	SE SE	6-14N-4W	.11579853
167	Cities Service	J. O'Brien "B"	SW SW	5-14N-4W	.11435932
168	Peppers	J. O'Brien	SE SW	5-14N-4W	.08475286
169	Continental	Mason	SW SE	5-14N-4W	.07977108
170	Continental	Mason	SE SE	5-14N-4W	.12010706
171	Sohio	Whisler	SW SW	4-14N-4W	.14532767
172	Sohio	Whisler	SE SW	4-14N-4W	.17750617
173	Continental	Seyller	SW SE	4-14N-4W	.20199675
174	Continental	Seyller	SE SE	4-14N-4W	.19082945
175	Cities Service	Seyller	SW SW	3-14N-4W	.24013243
176	Cities Service	Seyller	SE SW	3-14N-4W	.18885641
177	Carter	Hoover	SW SE	3-14N-4W	.15804310
178	Sohio	Swope	NW NE	12-14N-5W	.09774727
179	Sohio	Swope	NE NE	12-14N-5W	.13174653
180	Fox	Williams	NW NW	7-14N-4W	.13371117
181	Fox	Williams	NE NW	7-14N-4W	.12706371
182	Anderson-Prichard	Mosier	NW NE	7-14N-4W	.12173249
183	Anderson-Prichard	Mosier	NE NE	7-14N-4W	.11696663
184	Cities Service	O'Brien "A"	NW NW	8-14N-4W	.11433415
185	Peppers	M. O'Brien	NE NW	8-14N-4W	.11710356
186	Peppers	M. O'Brien	NW NE	8-14N-4W	.13794258

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Tract	Operator	Lease	Description		Percentage Interest in Unit
187	Sohio	Lachenmaier	NE NE	8-14N-4W	.14139661
188	Peppers	C. O'Brien	NW NW	9-14N-4W	.17475319
189	Sinclair	O'Brien	NE NW	9-14N-4W	.21761056
190	Continental	Johnson	NW NE	9-14N-4W	.20440397
191	Continental	Johnson	NE NE	9-14N-4W	.27022932

192	Phillips	Jorgenson	NW	NW	10-14N-4W .26175767
193	Phillips	Vida	NE	NW	10-14N-4W .21827310
194	Cities Service	Odle	NW	NE	10-14N-4W .20659034
195	Allied	Kelly	SE	NW	12-14N-5W .10622384
196	Sohio	Swope	SW	NE	12-14N-5W .13238610
197	Sohio	Swope	SE	NE	12-14N-5W .13075184
198	Fox	Williams	SW	NW	7-14N-4W .12886316
199	Fox	Williams	SE	NW	7-14N-4W .12720947
200	Anderson-Prichard	Mosier	SW	NE	7-14N-4W .09616992
201	Anderson-Prichard	Mosier	SE	NE	7-14N-4W .12063709
202	Cities Service	O'Brien "A"	SW	NW	8-14N-4W .11512036
203	Peppers	M. O'Brien	SE	NW	8-14N-4W .13439580
204	Sohio	Lachenmaier	SW	NE	8-14N-4W .14055740
205	Sohio	Lachenmaier	SE	NE	8-14N-4W .14761210
206	Sinclair	Lynn	SW	NW	9-14N-4W .17116665
207	Sinclair	C. O'Brien	SE	NW	9-14N-4W .25454926
208	Phillips	Coder "B"	SW	NE	9-14N-4W .24537090
209	Phillips	Coder "A"	SE	NE	9-14N-4W .20575201
210	Phillips	Jorgenson	SW	NW	10-14N-4W .24358999
211	Phillips	Vida	SE	NW	10-14N-4W .18117097
212	Cities Service	Odle	SW	NE	10-14N-4W .22898413
213	Phillips	Struble	SE	NE	10-14N-4W .11154558
214	Allied	Mulvey	NE	SW	12-14N-5W .09686864
215	Fox	O'Brien	NW	SE	12-14N-5W .13167939
216	Fox	O'Brien	NE	SE	12-14N-5W .13406453
217	Sohio	Williams "B"	NW	SE	7-14N-4W .12958577
218	Sohio	Williams "B"	NE	SW	7-14N-4W .12558846
219	Gulf	Christner	NW	SE	7-14N-4W .12425896
220	Gulf	Christner	NE	SE	7-14N-4W .12235527
221	Peppers	Long	NW	SW	8-14N-4W .11112298
222	Peppers	Long	NE	SW	8-14N-4W .11914873
223	Phillips	Rodkey	NW	SE	8-14N-4W .09892846
224	Phillips	Rodkey	NE	SE	8-14N-4W .15153344
225	Sohio	Casey	NW	SW	9-14N-4W .16215613
226	Sohio	Casey	NE	SW	9-14N-4W .20482358
227	Sohio	Harris	NW	SE	9-14N-4W .25309609
228	Sohio	Harris	NE	SE	9-14N-4W .30027674
229	Phillips	McKinnis	NW	SW	10-14N-4W .24982315
230	Phillips	McKinnis	NE	SW	10-14N-4W .19576006
231	Phillips	Whis	NW	SE	10-14N-4W .22524741
232	Phillips	Whis	NE	SE	10-14N-4W .18764465
233	Allied	O'Brien	SW	SE	12-14N-5W .12934946
234	Allied	O'Brien	SE	SE	12-14N-5W .13013347

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Tract	Operator	Lease	Description	Percentage Interest in Unit
235	Sohio	Williams "B"	SW SW 7-14N-4W	.12920150
236	Sohio	Williams "B"	SE SW 7-14N-4W	.12354342
237	Gulf	Christner	SW SE 7-14N-4W	.12195687
238	Gulf	Christner	SE SE 7-14N-4W	.12213884
239	Peppers	Long	SW SW 8-14N-4W	.13195324
240	Peppers	Long	SE SW 8-14N-4W	.11566467
241	Peppers	Fentem	SW SE 8-14N-4W	.12832916
242	Peppers	Fentem	SE SE 8-14N-4W	.13644695
243	Sohio	Casey	SW SW 9-14N-4W	.15844592
244	Sohio	Casey	SE SW 9-14N-4W	.15079582
245	Sohio	Harris	SW SE 9-14N-4W	.23156802
246	Sohio	Harris	SE SE 9-14N-4W	.30340922
247	Anderson-Prichard	McKinnis	SW SW 10-14N-4W	.23709801
248	Anderson-Prichard	McKinnis	SE SW 10-14N-4W	.21404964
249	Deep Rock	Whisler	SW SE 10-14N-4W	.22850533
250	Deep Rock	Whisler	SE SE 10-14N-4W	.17982381
251	Stanolind	Drake	NW NE 13-14N-5W	.12629075
252	Stanolind	Drake	NE NE 13-14N-5W	.10778981
253	Mid-Continent	E. Lynch	NW NW 18-14N-4W	.13015555
254	Mid-Continent	E. Lynch	NE NW 18-14N-4W	.12167117
255	Sohio	E. Lynch	NW NE 18-14N-4W	.07961820
256	Sohio	E. Lynch	NE NE 18-14N-4W	.11901982
257	Gulf	Wright	NW NW 17-14N-4W	.12275721
258	Gulf	Wright	NE NW 17-14N-4W	.12760478
259	Peppers	McCune	NW NE 17-14N-4W	.10197086
260	Peppers	McCune	NE NE 17-14N-4W	.12741265
261	Phillips	Gomer	NW NW 16-14N-4W	.14875962
262	Phillips	Gomer	NE NW 16-14N-4W	.16069325
263	Anderson-Prichard	State "A"	NW NE 16-14N-4W	.19978829
264	Anderson-Prichard	State "B"	NE NE 16-14N-4W	.25780452
265	Phillips	Gilmore	NW NW 15-14N-4W	.22077572
266	Phillips	Gilmore	NE NW 15-14N-4W	.19872823
267	Cities Service	Gilmore	NW NE 15-14N-4W	.24351579
268	Cities Service	Gilmore	NE NE 15-14N-4W	.18269181
269	Magnolia	Kibby	NW NW 14-14N-4W	.08838256
270	Stanolind	Drake	SE NE 13-14N-5W	.12754515
271	Mid-Continent	E. Lynch	SW NW 18-14N-4W	.12831370
272	Mid-Continent	E. Lynch	SE NW 18-14N-4W	.13138787
273	Sohio	E. Lynch	SW NE 18-14N-4W	.10701685
274	Sohio	E. Lynch	SE NE 18-14N-4W	.07297919

275	Gulf	Wright	SW NW 17-14N-4W	.12524217
276	Gulf	Wright	SE NW 17-14N-4W	.12535136
277	Peppers	McCune	SW NE 17-14N-4W	.13512459
278	Peppers	McCune	SE NE 17-14N-4W	.13359324
279	Phillips	Gomer	SW NW 16-14N-4W	.14627731
280	Phillips	Gomer	SE NW 16-14N-4W	.15507140
281	Anderson-Prichard	State "A"	SW NE 16-14N-4W	.19666111
282	Anderson-Prichard	State "B"	SE NE 16-14N-4W	.22265203

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Tract	Operator	Lease	Description	Percentage Interest in Unit
283	Phillips	Ralph	SW NW 15-14N-4W	.23651939
284	Phillips	Ralph	SE NW 15-14N-4W	.23773846
285	Cities Service	Gilmore	SW NE 15-14N-4W	.25596620
286	Cities Service	Gilmore	SE NE 15-14N-4W	.18450575
287	Peppers	McKinnis "A"	NE SE 13-14N-5W	.13015555
288	Peppers	McKinnis	NW SW 18-14N-4W	.12677661
289	Peppers	McKinnis	NE SW 18-14N-4W	.12831370
290	Anderson-Prichard	Cypher	NW SE 18-14N-4W	.12370243
291	Anderson-Prichard	Cypher	NE SE 18-14N-4W	.12270918
292	Sohio	K. Lynch	NW SW 17-14N-4W	.11829970
293	Sohio	K. Lynch	NE SW 17-14N-4W	.14246992
294	Peppers	McCune	NW SE 17-14N-4W	.11056177
295	Peppers	McCune	NE SE 17-14N-4W	.13642316
296	Sohio	State	NW SW 16-14N-4W	.15354314
297	Phillips	Bluff "D"	NE SW 16-14N-4W	.16735043
298	Phillips	Bluff "D"	NW SE 16-14N-4W	.18299516
299	Phillips	Bluff "D"	NE SE 16-14N-4W	.20018581
300	Phillips	Whisler	NW SW 15-14N-4W	.25602451
301	Phillips	Whisler	NE SW 15-14N-4W	.22067148
302	Stanolind	Fleming	NW SE 15-14N-4W	.20858679
303	Sinclair	Boling	NE SE 15-14N-4W	.20907839
304	Peppers	McKinnis "A"	SE SE 13-14N-5W	.12301952
305	Peppers	McKinnis	SW SW 18-14N-4W	.11566841
306	Peppers	McKinnis	SE SW 18-14N-4W	.12754515
307	Anderson-Prichard	Cypher	SW SE 18-14N-4W	.12600807
308	Anderson-Prichard	Cypher	SE SE 18-14N-4W	.12629075
309	Anderson-Prichard	Cypher	SW SW 17-14N-4W	.12727086
310	Anderson-Prichard	Cypher	SE SW 17-14N-4W	.12629075
311	Peppers	McCune	SW SE 17-14N-4W	.11776015
312	Peppers	McCune	SE SE 17-14N-4W	.13421028
313	Sohio	State	SW SW 16-14N-4W	.15985934

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314	Phillips	Bluff "D"	SE SW 16-14N-4W	.21134295
315	Phillips	Bluff "D"	SW SE 16-14N-4W	.19578214
316	Phillips	Bluff "E"	SE SE 16-14N-4W	.23710242
317	Phillips	Whisler	SW SW 15-14N-4W	.20323702
318	Phillips	Whisler	SE SW 15-14N-4W	.23715543
319	Stanolind	Fleming	SW SE 15-14N-4W	.17520371
320	Sinclair	Boling	SE SE 15-14N-4W	.21540651
321	Stanolind	Sellers	SW SW 14-14N-4W	.14786917
322	Sohio	Silberberger	NE NE 24-14N-5W	.10170109
323	Peppers	Waller	NW NW 19-14N-4W	.13215642
324	Peppers	Waller	NE NW 19-14N-4W	.12266887
325	Peppers	Winter	NW NE 19-14N-4W	.12878189
326	Peppers	Winter	NE NE 19-14N-4W	.10538123
327	Sohio	Williams "A"	NW NW 20-14N-4W	.11977511
328	Sohio	Williams "A"	NE NW 20-14N-4W	.11805864
329	Gulf	Messenbaugh	NW NE 20-14N-4W	.12987729

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Tract	Operator	Lease	Description	Percentage Interest in Unit
330	Gulf	Messenbaugh	NE NE 20-14N-4W	.13892314
331	Sohio	King "B"	NW NW 21-14N-4W	.16826473
332	Sohio	King "B"	NE NW 21-14N-4W	.20275646
333	Sohio	King "A"	NW NE 21-14N-4W	.18473101
334	Sohio	King "A"	NE NE 21-14N-4W	.21405494
335	Phillips	Shinn	NW NW 22-14N-4W	.18821596
336	Phillips	Shinn	NE NW 22-14N-4W	.22015603
337	Anderson-Prichard	Davis	NW NE 22-14N-4W	.18945270
338	Anderson-Prichard	Davis	NE NE 22-14N-4W	.13346824
339	Fox	Surbeck	NW NW 23-14N-4W	.11286331
340	Sohio	Waller	SE NE 24-14N-5W	.11479130
341	Peppers	Waller	SW NW 19-14N-4W	.12985079
342	Peppers	Waller	SE NW 19-14N-4W	.12419713
343	Peppers	Winter	SW NE 19-14N-4W	.11771126
344	Peppers	Winter	SE NE 19-14N-4W	.11052762
345	Sohio	Williams "A"	SW NW 20-14N-4W	.11421898
346	Sohio	Williams "A"	SE NW 20-14N-4W	.12476488
347	Gulf	Messenbaugh	SW NE 20-14N-4W	.12964407
348	Gulf	Messenbaugh	SE NE 20-14N-4W	.14119068
349	Sohio	King "B"	SW NW 21-14N-4W	.17134333
350	Sohio	King "B"	SE NW 21-14N-4W	.20528779
351	Sohio	King "A"	SW NE 21-14N-4W	.19621942
352	Sohio	King "A"	SE NE 21-14N-4W	.20148438

353	Phillips	Shinn	SW NW 22-14N-4W	.19981479
354	Phillips	Shinn	SE NW 22-14N-4W	.19261079
355	Anderson-Prichard	Davis	SW NE 22-14N-4W	.16461812
356	Sohio	Waller	NE SE 24-14N-5W	.14020404
357	Chudacoff	McCain	NW SW 19-14N-4W	.12447098
358	Fox	Peterson	NE SW 19-14N-4W	.13247444
359	Mid-Continent	Peterson	NW SE 19-14N-4W	.11679098
360	Mid-Continent	Peterson	NE SE 19-14N-4W	.12317292
361	Stanolind	Briscoe	NW SW 20-14N-4W	.08683544
362	Sohio	Ward	NE SW 20-14N-4W	.13247444
363	Sohio	Ward	NW SE 20-14N-4W	.12831370
364	Stanolind	King	NE SE 20-14N-4W	.13523059
365	Wegener	King	NW SW 21-14N-4W	.15557316
366	Wegener	King	NE SW 21-14N-4W	.16997408
367	Continental	Casey	NW SE 21-14N-4W	.17222671
368	Continental	Casey	NE SE 21-14N-4W	.17514188
369	Peppers	Van Bibber	NW SW 22-14N-4W	.17871296
370	Peppers	Van Bibber	NE SW 22-14N-4W	.17888742
371	Peppers	Lowry	NW SE 22-14N-4W	.15149369
372	Sohio	Funk	SE SE 24-14N-5W	.13479332
373	Sohio	McCain	SW SW 19-14N-4W	.13711220
374	Fox	Peterson	SE SW 19-14N-4W	.14152205
375	Mid-Continent	Peterson	SW SE 19-14N-4W	.13201508
376	Mid-Continent	Peterson	SE SE 19-14N-4W	.13063523
377	Stanolind	Briscoe	SW SW 20-14N-4W	.09390333

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Tract	Operator	Lease	Description	Percentage Interest in Unit
378	Sohio	Ward	SE SW 20-14N-4W	.13173239
379	Sohio	Ward	SW SE 20-14N-4W	.12900804
380	Stanolind	King	SE SE 20-14N-4W	.13404686
381	Wegener	King	SW SW 21-14N-4W	.14605646
382	Wegener	King	SE SW 21-14N-4W	.14879937
383	Continental	Casey	SW SE 21-14N-4W	.14920352
384	Continental	Casey	SE SE 21-14N-4W	.16107399
385	Peppers	Lyons	SW SW 22-14N-4W	.15394066
386	Peppers	Lyons	SE SW 22-14N-4W	.14758030
387	Peppers	Lowry	SW SE 22-14N-4W	.06416322
388	Stanolind	K. Young	NE NE 25-14N 5W	.08938383
389	Sohio	M. Leonard	NW NW 30-14N-4W	.14097701
390	Sohio	M.Leonard"B"	NE NW 30-14N-4W	.14405560
391	Fox	Briscoe	NW NE 30-14N-4W	.13718729

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392	Sohio	Briscoe "B"	NE NE 30-14N-4W	.13173239
393	Sohio	Beam	NW NW 29-14N-4W	.12873330
394	Sohio	Beam	NE NW 29-14N-4W	.12849921
395	Sohio	Cook	NW NE 29-14N-4W	.12715646
396	Sohio	Baker	NE NE 29-14N-4W	.14110068
397	Stanolind	Crookham	NW NW 28-14N-4W	.15047338
398	Stanolind	Crookham	NE NW 28-14N-4W	.14480647
399	Sohio	McDowell	NW NE 28-14N-4W	.13644966
400	Anderson	Patten	NE NE 28-14N-4W	.13210341
401	Stanolind	Pauly	NW NW 27-14N-4W	.12736229
402	Russell	Pauly	NE NW 27-14N-4W	.12781017
403	Stanolind	Kirchner	NW NE 27-14N-4W	.04023100
404	Stanolind	K. Young	SE NE 25-14N-5W	.10506729
405	Sohio	M. Leonard	SW NW 30-14N-4W	.13907331
406	Sohio	M.Leonard"B"	SE NW 30-14N-4W	.14829584
407	Sohio	Briscoe 509	SW NE 30-14N-4W	.13841077
408	Sohio	Briscoe	SE NE 30-14N-4W	.13081809
409	Sohio	Beam	SW NW 29-14N 4W	.12598156
410	Sohio	Beam	SE NW 29-14N-4W	.06959144
411	Wescott	Cook	SW NE 29-14N-4W	.02906333
412	Sohio	Baker	SE NE 29-14N-4W	.09888376
413	Stanolind	Crookham	SW NW 28-14N-4W	.15305419
414	Stanolind	Crookham	SE NW 28-14N-4W	.14409977
415	Sohio	McDowell "D"	SW NE 28-14N-4W	.15289650
416	Anderson	Patten	SE NE 28-14N-4W	.12863172
417	Stanolind	Pauly	SW NW 27-14N-4W	.11131297
418	Russell	Pauly	SE NW 27-14N-4W	.10484660
419	Stanolind	Kirchner	SW NE 27-14N-4W	.06748406
420	Stanolind	Hansicker	NE SE 25-14N-5W	.13943108
421	Skelly	Spivey	NW SW 30-14N-4W	.14559269
422	Skelly	Spivey	NE SW 30-14N-4W	.14590187
423	Sohio	Cargill	NW SE 30-14N-4W	.13361842
424	Sohio	Cargill	NE SE 30-14N-4W	.13716167

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Tract	Operator	Lease	Description	Percentage Interest in Unit
425	Fox	Arnold	NW SW 29-14N-4W	.01126314
426	Fox	Arnold	NE SW 29-14N-4W	.07101709
427	Stanolind	Banks	NW SE 29-14N-4W	.05931834
428	Stanolind	Banks	NE SE 29-14N-4W	.02155457
429	Peppers	Ella McDowell	NW SW 28-14N-4W	.08296604
430	Fox	McDowell	NE SW 28-14N-4W	.10497911

431	Peppers	Deal	NW SE 28-14N-4W	.12187383
432	Anderson-Prichard	Deal	NE SE 28-14N-4W	.11625109
433	Sohio	Patten	NW SW 27-14N-4W	.09130954
434	Stanolind	Patten	NE SW 27-14N-4W	.10782802
435	Stanolind	Hunsicker	SE SE 25-14N-5W	.11488627
436	Skelly	Spivey	SW SW 30-14N-4W	.14482856
437	Skelly	Spivey	SE SW 30-14N-4W	.14583120
438	Sohio	Cargill	SW SE 30-14N-4W	.10897507
439	Sohio	Cargill	SE SE 30-14N-4W	.01093429
440	Peppers	Arnold	SW SW 29-14N-4W	.11731014
441	Peppers	Arnold	SE SW 29-14N-4W	.12970653
442	Stanolind	Banks	SW SE 29-14N-4W	.10004474
443	Stanolind	Banks	SE SE 29-14N-4W	.06055990
444	Peppers	Ella McDowell	SW SW 28-14N-4W	.06802684
445	Chudacoff	McDowell	SE SW 28-14N-4W	.01865707
446	Peppers	Deal	SW SE 28-14N-4W	.04010443
447	Anderson-Prichard	Dillon	SE SE 28-14N-4W	.06980498
448	Sohio	Patten	SW SW 27-14N-4W	.08206855
449	Sohio	Harper	NW NE 31-14N-4W	.14364924
450	Sohio	Harper	NE NE 31-14N-4W	.13989486
451	Stanolind	J. Young	NW NW 32-14N-4W	.14590187
452	Denver	Young	NE NW 32-14N-4W	.14630825
453	Sohio	K. Young	NW NE 32-14N-4W	.14917039
454	Sohio	K. Young	NE NE 32-14N-4W	.14283976
455	Atkinson	French	NW NW 33-14N-4W	.15544242
456	Peppers	French	NE NW 33-14N-4W	.13411227
457	Peppers	Graham	NW NE 33-14N-4W	.10988815
458	Peppers	Williams	NE NE 33-14N-4W	.02271774
459	Fox	Spivey	SW NW 31-14N-4W	.14329589
460	Sohio	Spivey	SE NW 31-14N-4W	.15222690
461	Sohio	Harper	SW NE 31-14N-4W	.16233281
462	Sohio	Harper	SE NE 31-14N-4W	.15308378
463	Stanolind	J. Young	SW NW 32-14N-4W	.15385498
464	Denver	J. Young	SE NW 32-14N-4W	.15235057
465	Sohio	J. Young	SW NE 32-14N-4W	.15289650
466	Sohio	J. Young	SE NE 32-14N-4W	.10520710
467	Atkinson	French	SW NW 33-14N-4W	.14647739
468	Peppers	French	SE NW 33-14N-4W	.13275882
469	Peppers	Earl McDowell	SW NE 33-14N-4W	.12511585
470	Peppers	Earl McDowell	SE NE 33-14N-4W	.11616717
471	Denver	Cargill "B"	SW NW 34-14N-4W	.10409131

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Tract	Operator	Lease	Description	Percentage Interest in Unit
472	Peppers	Meeker	NE SW 31-14N-4W	.15676749
473	Sohio	Ringer	NW SE 31-14N-4W	.17007125
474	Sohio	Ringer	NE SE 31-14N-4W	.15808561
475	Fox-Schmitz	Wagner	NW SW 32-14N-4W	.15765088
476	Fox-Schmitz	Wagner	NE SW 32-14N-4W	.16042470
477	Peppers	Young	NW SE 32-14N-4W	.16175684
478	McMahon	Young	NE SE 32-14N-4W	.14844721
479	Wegener	Flynn	NW SW 33-14N-4W	.13678093
480	Wegener	Flynn	NE SW 33-14N-4W	.10356570
481	Sohio	McDowell 511	NW SE 33-14N-4W	.10644265
482	Sohio	McDowell "B"	NE SE 33-14N-4W	.12933842
483	Denver	Cargill "A"	NW SW 34-14N-4W	.11889506
484	Denver	Cargill "A"	NE SW 34-14N-4W	.04368605
485	Amerada	Meeker	SW SW 31-14N-4W	.11302386
486	Peppers	Meeker	SE SW 31-14N-4W	.07435884
487	Magnola	Ringer	SW SE 31-14N-4W	.17079121
488	Magnolia	Ringer	SE SE 31-14N-4W	.16833982
489	Fox-Schmitz	Wagner	SW SW 32-14N-4W	.16915695
490	Fox-Schmitz	Wagner	SE SW 32-14N-4W	.16911499
491	Peppers	Young	SW SE 32-14N-4W	.16304305
492	McMahon	Burns	SE SE 32-14N-4W	.15863143
493	Peppers	Flynn	SW SW 33-14N-4W	.16603551
494	Peppers	Flynn	SE SW 33-14N-4W	.13534272
495	Fox	McDowell	SW SE 33-14N-4W	.13500091
496	Sohio	McDowell "A"	SE SE 33-14N-4W	.13621998
497	Denver	Cargill "A"	SW SW 34-14N-4W	.11809668
498	Denver	Cargill "A"	SE SW 34-14N-4W	.03296296
499	Denver	Cargill "C"	SW SE 34-14N-4W	.02299557
500	Chudacoff	Meeker	NE NW 6-13N-4W	.14740362
501	Sinclair	Ringer Tract 1	NW NE 6-13N-4W	.16030103
502	Sinclair	Ringer Tract 1	NE NE 6-13N-4W	.17668780
503	Denver	Genzer	NW NW 5-13N-4W	.17974431
504	Sohio	Genzer	NE NW 5-13N-4W	.17794927
505	Wegener	Lenhart	NW NE 5-13N-4W	.17434683
506	Wegener	Lenhart	NE NE 5-13N-4W	.16888752
507	Fox	Keefer	NW NW 4-13N-4W	.15993884
508	Sohio	Keefer	NE NW 4-13N-4W	.14587995
509	Sohio	Habben	NW NE 4-13N-4W	.13996111
510	Sohio	Habben 512	NE NE 4-13N-4W	.13871554
511	Denver	Kuehne	NW NW 3-13N-4W	.11708765
512	Denver	Kuehne	NE NW 3-13N-4W	.05086133

513	Denver	Smith	NW NE	3-13N-4W	.04236776
514	Sinclair	Ringer Tract 2	SW NE	6-13N-4W	.14928081
515	Sinclair	Ringer Tract 2	SE NE	6-13N-4W	.17059245
516	Denver	Genzer	SW NW	5-13N-4W	.18354507
517	Sohio	Genzer	SE NW	5-13N-4W	.18276106
518	Wegener	Keefer Comm.	SW NE	5-13N-4W	.17587067

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Tract	Operator	Lease	Description		Percentage Interest in Unit
519	Wegener	Keefer Comm.	SE NE	5-13N-4W	.17678320
520	Peppers	Keefer	SW NW	4-13N-4W	.17298228
521	Peppers	Keefer	SE NW	4-13N-4W	.15273536
522	Denver	Tegtmeyer	SW NE	4-13N-4W	.14023055
523	Denver	Tegtmeyer "B"	SE NE	4-13N-4W	.15568976
524	Denver	Kuehne	SW NW	3-13N-4W	.11661787
525	Denver	Kuehne	SE NW	3-13N-4W	.03577518
526	Denver	Smith	SW NE	3-13N-4W	.03270185
527	Peppers	Heidbrink	NW SE	6-13N-4W	.13425004
528	Peppers	Heidbrink	NE SE	6-13N-4W	.14991243
529	Mid-Continent	A. Q. Lynch	NW SW	5-13N-4W	.18062990
530	Mid-Continent	A. Q. Lynch	NE SW	5-13N-4W	.18614001
531	Wegener	Keefer	NW SE	5-13N-4W	.18351636
532	Wegener	Keefer	NE SE	5-13N-4W	.18264181
533	Magnolia	Lynch Est.	NW SW	4-13N-4W	.18059147
534	Magnolia	Lynch Est.	NE SW	4-13N-4W	.17302176
535	Denver	D. Barber	NW SE	4-13N-4W	.13482421
536	Denver	D. Barber	NE SE	4-13N-4W	.13734630
537	Denver	H. Barber	NW SW	3-13N-4W	.13999424
538	Denver	H. Barber	NE SW	3-13N-4W	.07131592
539	Denver	Bierschenk	NW SE	3-13N-4W	.06708869
540	Stanolind	Heidbrink	SE SE	6-13N-4W	.14469163
541	Mid-Continent	A. Q. Lynch	SW SW	5-13N-4W	.16644496
542	Mid-Continent	A. Q. Lynch	SE SW	5-13N-4W	.18439091
543	Sohio	Hassell	SW SE	5-13N-4W	.18762674
544	Fox	Hassell	SE SE	5-13N-4W	.18845006
545	Magnolia	Lynch Est.	SW SW	4-13N-4W	.18405522
546	Magnolia	Lynch Est.	SE SW	4-13N-4W	.16689991
547	Denver	D. Barber	SW SE	4-13N-4W	.13915282
548	Denver	D. Barber	SE SE	4-13N-4W	.12299749
549	Denver	H. Barber	SW SW	3-13N-4W	.09887902
550	Denver	H. Barber	SE SW	3-13N-4W	.11458591
551	Denver	Bierschenk	SW SE	3-13N-4W	.04305834

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552	Stanolind	Shinn	NW NW	8-13N-4W	.14348260
553	Peppers	Shinn	NE NW	8-13N-4W	.18384763
554	Peppers	Barber	NW NE	8-13N-4W	.18701456
555	Sohio	Barber	NE NE	8-13N-4W	.19521328
556	Sohio	Gray	NW NW	9-13N-4W	.18618375
557	Sohio	Hardy	NE NW	9-13N-4W	.18264181
558	Anderson-Prichard	Berry	NW NE	9-13N-4W	.16461547
559	Anderson-Prichard	Berry	NE NE	9-13N-4W	.12993471
560	Denver	T. Sitlington	NW NW	10-13N-4W	.06803716
561	Denver	T. Sitlington	NE NW	10-13N-4W	.07405916
562	Denver	S. Sitlington	NW NE	10-13N-4W	.11959591
563	Peppers	Shinn	SE NW	8-13N-4W	.18645802
564	Peppers	Barber	SW NE	8-13N-4W	.18471776
565	Sohio	Barber	SE NE	8-13N 4W	.18876366

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Tract	Operator	Lease	Description		Percentage Interest in Unit
566	Sohio	Gray	SW NW	9-13N-4W	.16157005
567	Sohio	Hardy	SE NW	9-13N-4W	.17340603
568	Champlin	Conneway	SW NE	9-13N-4W	.15933730
569	Champlin	Conneway	SE NE	9-13N-4W	.15235057
570	Denver	T. Sitlington	SW NW	10-13N-4W	.12443293
571	Denver	T. Sitlington	SE NW	10-13N-4W	.11217088
572	Denver	S. Sitlington	SW NE	10-13N-4W	.06194831
573	Denver	S. Sitlington	SE NE	10-13N-4W	.02703155
574	Anderson-Prichard	Mariner	NE SW	8-13N-4W	.17862683
575	Gulf	P. Paul	NW SE	8-13N-4W	.17949696
576	Gulf	A. Paul	NE SE	8-13N-4W	.18732816
577	Sohio	Hardy	NW SW	9-13N-4W	.18526546
578	Sohio	Hardy	NE SW	9-13N-4W	.17464718
579	Anderson-Prichard	Crookham "A"	NW SE	9-13N-4W	.17138396
580	Anderson-Prichard	Crookham "A"	NE SE	9-13N-4W	.15479755
581	Denver	Meeker	NW SW	10-13N-4W	.12374576
582	Denver	Meeker	NE SW	10-13N-4W	.13154688
583	Wegener	Meeker	NW SE	10-13N-4W	.13956094
584	Wegener	Meeker	NE SE	10-13N-4W	.11567603
585	Denver	Collett	NW SW	11-13N-4W	.02798542
586	Anderson-Prichard	Mariner	SE SW	8-13N-4W	.17775669
587	Gulf	A. Paul	SW SE	8-13N-4W	.17514629
588	Gulf	A. Paul	SE SE	8-13N-4W	.18091921
589	Sohio	Hardy	SW SW	9-13N-4W	.18383967
590	Sohio	Hardy	SE SW	9-13N-4W	.17897576

591	Anderson-Prichard	Crookham "A"	SW SE 9-13N-4W	.17231505
592	Anderson-Prichard	Crookham "A"	SE SE 9-13N-4W	.15765088
593	Denver	Meeker	SW SW 10-13N-4W	.10036327
594	Denver	Meeker	SE SW 10-13N-4W	.13648941
595	Wegener	Meeker	SW SE 10-13N-4W	.12929425
596	Mid-Continent	Jones	NE NW 17-13N-4W	.12760599
597	Anderson-Prichard	Crookham	NW NE 17-13N-4W	.17242547
598	Anderson-Prichard	Crookham	NE NE 17-13N-4W	.17819397
599	Phillips	Bluff "A"	NW NW 16-13N-4W	.17637861
600	Phillips	Bluff "A"	NE NW 16-13N-4W	.17328677
601	Phillips	Bluff "B"	NW NE 16-13N-4W	.14008037
602	Phillips	Bluff "B"	NE NE 16-13N-4W	.12269712
603	Midstates	McClure	NW NW 15-13N-4W	.13413078
604	Midstates	McClure	NE NW 15-13N-4W	.11318133
605	Denver	Johnston	NW NE 15-13N-4W	.04406285
606	Mid-Continent	Jones	SE NW 17-13N-4W	.12876422
607	Anderson-Prichard	Crookham	SW NE 17-13N-4W	.15864468
608	Anderson-Prichard	Crookham	SE NE 17-13N-4W	.17242547
609	Phillips	Bluff "A"	SW NW 16-13N-4W	.17536272
610	Phillips	Bluff "A"	SE NW 16-13N-4W	.17265073
611	Phillips	Bluff "B"	SW NE 16-13N-4W	.15896067
612	Phillips	Bluff "B"	SE NE 16-13N-4W	.14947958

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Tract	Operator	Lease	Description	Percentage Interest in Unit
513	Midstates	McClure	SW NW 15-13N-4W	.14407327
514	Midstates	McClure	SE NW 15-13N-4W	.11690479
515	Denver	Johnston	SW NE 15-13N-4W	.01162533
516	Stanolind	Lowenstein	NE SW 17-13N-4W	.11889565
517	Phillips	Crookham	NW SE 17-13N-4W	.16772145
518	Phillips	Crookham	NE SE 17-13N-4W	.17242547
519	Magnolia	Motter Heirs	NW SW 16-13N-4W	.16901782
520	Magnolia	Motter Heirs	NE SW 16-13N-4W	.16685132
521	Phillips	Bluff "C"	NW SE 16-13N-4W	.14648896
522	Phillips	Bluff "C"	NE SE 16-13N-4W	.15418989
523	Stanolind	West	NW SW 15-13N-4W	.13685789
524	Stanolind	West	NE SW 15-13N-4W	.11216408
525	Phillips	Crookham	SW SE 17-13N-4W	.17031860
526	Phillips	Crookham	SE SE 17-13N-4W	.17229296
527	Magnolia	Motter Heirs	SW SW 16-13N-4W	.16547766
528	Magnolia	Motter Heirs	SE SW 16-13N-4W	.16261991
529	Phillips	Bluff "C"	SW SE 16-13N-4W	.15257142

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630	Phillips	Bluff "C"	SE SE 16-13N-4W	.14508916
631	Stanolind	West	SW SW 15-13N-4W	.11948869
632	Stanolind	West	SE SW 15-13N-4W	.04726086
633	Tide Water	Motter	NW NE 20-13N-4W	.17775669
634	Tide Water	Motter	NE NE 20-13N-4W	.16992550
635	Anderson-Prichard	Perdue	NW NW 21-13N-4W	.16036286
636	Anderson-Prichard	Perdue	NE NW 21-13N-4W	.15155553
637	Magnolia	Holloway	NW NE 21-13N-4W	.13862279
638	Magnolia	Holloway	NE NE 21-13N-4W	.14360507
639	Peppers	Anderson	NW NW 22-13N-4W	.12593121
640	Peppers	Anderson	NE NW 22-13N-4W	.08157403
641	Stanolind	Edney	SE NW 20-13N-4W	.17914361
642	Tide Water	Motter	SW NE 20-13N-4W	.17914361
643	Tide Water	Motter	SE NE 20-13N-4W	.17389631
644	Anderson-Prichard	Perdue	SW NW 21-13N-4W	.16079572
645	Anderson-Prichard	Perdue	SE NW 21-13N-4W	.14820574
646	Magnolia	Holloway	SW NE 21-13N-4W	.13928091
647	Magnolia	Holloway	SE NE 21-13N-4W	.13455922
648	Peppers	Anderson	SW NW 22-13N-4W	.12245686
649	Peppers	Anderson	SE NW 22-13N-4W	.08743970
650	Gulf	Streeter	NW SE 20-13N-4W	.18134323
651	Gulf	Streeter	NE SE 20-13N-4W	.18194393
652	Gulf	Flynn	NW SW 21-13N-4W	.15597951
653	Gulf	Flynn	NE SW 21-13N-4W	.14757588
654	Stanolind	Parman "A"	NW SE 21-13N-4W	.13145059
655	Stanolind	Parman "A"	NE SE 21-13N-4W	.12346392
656	Phillips	Halmbacher	NW SW 22-13N-4W	.12908887
657	Phillips	Halmbacher	NE SW 22-13N-4W	.03159439
658	Gulf	Streeter	SW SE 20-13N-4W	.17222671
659	Gulf	Streeter	SE SE 20-13N-4W	.18939969
660	Gulf	Flynn	SW SW 21-13N-4W	.17503587

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Tract	Operator	Lease	Description	Percentage Interest in Unit
661	Gulf	Flynn	SE SW 21-13N-4W	.14694426
662	Stanolind	Parman "A"	SW SE 21-13N-4W	.14636123
663	Stanolind	Parman "A"	SE SE 21-13N-4W	.14758030
664	Phillips	Halmbacher	SW SW 22-13N-4W	.13092851
665	Magnolia	Lay	NW NE 29-13N-4W	.13609631
666	Magnolia	Lay	NE NE 29-13N-4W	.19236786
667	Magnolia	Talbot	NW NW 28-13N-4W	.18721067
668	Magnolia	Talbot	NE NW 28-13N-4W	.17788037

669	Stanolind	Parman "B"	NW NE 28-13N-4W	.17952788
670	Stanolind	Parman "B"	NE NE 28-13N-4W	.13482424
671	Stanolind	Parman "C"	NW NW 27-13N-4W	.05428060
672	Magnolia	Lay	SW NE 29-13N-4W	.19685810
673	Magnolia	Lay	SE NE 29-13N-4W	.19060110
674	Magnolia	Talbot	SW NW 28-13N-4W	.17536272
675	Magnolia	Talbot	SE NW 28-13N-4W	.15265092
676	Stanolind	Parman "B"	SW NE 28-13N-4W	.15301311
677	Stanolind	Parman "B"	SE NE 28-13N-4W	.12443564
678	Phillips	Luf	NE SW 29-13N-4W	.14863765
679	Phillips	Lufkin	NW SE 29-13N-4W	.19669644
680	Phillips	Lufkin	NE SE 29-13N-4W	.18828221
681	Phillips	Stinchcomb	NW SW 28-13N-4W	.17730617
682	Cities Service	Stinchcomb "A"	NE SW 28-13N-4W	.15768798
683	Cities Service	Stinchcomb "C"	NW SE 28-13N-4W	.16329570
684	Cities Service	Stinchcomb "D"	NE SE 28-13N-4W	.13940988
685	Stanolind	Replogle "A"	NW SW 27-13N-4W	.01651928
686	Phillips	Lufkin	SW SE 29-13N-4W	.18945270
687	Phillips	Lufkin	SE SE 29-13N-4W	.20852760
688	Phillips	Stinchcomb	SW SW 28-13N-4W	.20644900
689	Cities Service	Stinchcomb "A"	SE SW 28-13N-4W	.19462049
690	Cities Service	Stinchcomb "B"	SW SE 28-13N-4W	.18227962
691	Cities Service	Emerson "B"	SE SE 28-13N-4W	.18367537
692	Stanolind	Replogle "B"	SW SW 27-13N-4W	.15826571
693	Phillips	Orphanage	NW NE 32-13N 4W	.19102512
694	Phillips	Orphanage	NE NE 32-13N-4W	.20787125
695	Phillips	Piersol	NW NW 33-13N-4W	.18784935
696	Phillips	Piersol	NE NW 33-13N-4W	.19487667
697	Stanolind	Urschel	NW NE 33-13N-4W	.16007400
698	Stanolind	Urschel	NE NE 33-13N-4W	.16320736
699	Midstates	AndersonUnit	NW NW 34-13N-4W	.13286279
700	Phillips	Orphanage	SE NE 32-13N-4W	.19466466
701	Phillips	Piersol	SW NW 33-13N-4W	.20888714
702	Phillips	Piersol	SE NW 33-13N-4W	.17482386
703	Stanolind	Urschel	SW NE 33-13N-4W	.15968708
704	Stanolind	Urschel	SE NE 33-13N-4W	.15086649
705	Midstates	Anderson	SW NW 34-13N-4W	.13863339
706	Magnolia	Reust	NE SE 32-13N-4W	.18295982
707	Stanolind	Dietz "A"	NW SW 33-13N-4W	.19763283
708	Phillips	Specht	NE SW 33-13N-4W	.18778752

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Tract	Operator	Lease	Description	Percentage Interest in Unit
709	Magnolia	Whetstone	NW SE 33-13N-4W	.15722862
710	Stanolind	Y. M. C. A.	NE SE 33-13N-4W	.13046032
711	Stanolind	Shellenberger	NW SW 34-13N-4W	.12046042
712	Stanolind	Dietz "B"	SW SW 33-13N-4W	.18136973
713	Phillips	Specht	SE SW 33-13N-4W	.17677040
714	Magnolia	Whetstone Unit	SW SE 33-13N-4W	.14579586
715	Stanolind	Y. M. C. A. Unit	SE SE 33-13N-4W	.12227577
716	Stanolind	Gaylord	NE NE 5-12N-4W	.14839268
717	Deep Rock	Tolbert	NW NW 4-12N-4W	.19109579
718	Deep Rock	Tolbert	NE NW 4-12N-4W	.16228864
719	Champlin	Campbell	NW NE 4-12N-4W	.12887023
720	Stanolind	Evans	NE NE 4-12N-4W	.11911767
721	Stanolind	Gaylord	SE NE 5-12N-4W	.14666158
722	Deep Rock	Tolbert	SW NW 4-12N-4W	.17386141
723	Deep Rock	Tolbert	SE NW 4-12N-4W	.14638773
724	Champlin	Campbell	SW NE 4-12N-4W	.12606990
725	Stanolind	Evans Unit	SE NE 4-12N-4W	.11816362
726	Stanolind	Gaylord	NE SE 5-12N-4W	.15195305
727	British-American	Tom Tom Ranch	NW SW 4-12N-4W	.16777446
728	British-American	Tom Tom Ranch	NE SW 4-12N-4W	.16930492
729	Magnolia	Twin Lakes	NW SE 4-12N-4W	.12353017
730	Magnolia	Twin Lakes	NE SE 4-12N-4W	.10596762
731	Stanolind	Gaylord	SE SE 5-12N-4W	.15001844
732	British-American	Tom Tom Ranch	SW SW 4-12N-4W	.16898911
733	British-American	Tom Tom Ranch	SE SW 4-12N-4W	.18176726
734	Phillips	Mee	SW SE 4-12N-4W	.12505401
735	Phillips	Airport	NE NE 8-12N-4W	.11353045
736	Stanolind	Harris	NW NW 9-12N-4W	.15579306
737	Phillips	Dole	NE NW 9-12N-4W	.16939237
738	Stanolind	Halbert	NW NE 9-12N-4W	.15932047
739	Sinclair	Clausewitz	NE NE 9-12N-4W	.14113160
740	Magnolia	Housel	NW NW 10-12N-4W	.15076048
741	Magnolia	Housel	SW NW 10-12N-4W	.13574296
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EXHIBIT "C"

ACCOUNTING PROCEDURE

I.

DEVELOPMENT AND OPERATING CHARGES

Subject to the limitations herein contained, the costs and expenses to be charged as Unit Expense under the Plan of Unitization for the West Edmond Hunton Lime Unit shall include amounts expended by Unit Operator for the following:

(1) Materials, equipment and supplies purchased for use on the Unit Area or for the development and operation thereof. In so far as it is practical and consistent with efficient and economical operation, only such materials shall be purchased for the Unit Area as are required for immediate use and the accumulation of warehouse stocks on the Unit Area shall be avoided, unless authorized by the Operating Committee.

(2) Moving materials to the Unit Area from railway receiving point or from nearest reliable supply store.

(3) Moving surplus materials from the Unit Area to outside vendees, if sold f. o. b. destination.

(4) The salaries and wages or other compensation of employees of Unit Operator who perform duties for Unit Operator only on, or in connection with the development and operation of, the Unit Area, including all personnel up to and including the operating general manager of the Unit Area, together with so-called

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"Social Security" taxes and any and all other taxes or governmental charges imposed by governmental authority, whether federal, state or local, and payable by Unit Operator upon or in respect of such salaries, wages or other compensation.

(5) The acquistion, maintenance and operation of camp facilities, warehouse facilities and office facilities on, or in connection with the development and operation of, the Unit Area and the acquisition of which is authorized or approved by the Operating Committee, all such facilities to be used exclusively in connection with operations conducted pursuant to the Plan of Unitization.

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(6) Trucking, teaming and like services required in the conduct of operations pursuant to the Plan of Unitization.

(7) Engineering, geological and other technical services obtained from outside sources with the approval of the Operating Committee.

(8) Use of and service by Unit Operator's exclusively owned equipment and utilities, as provided in Section II entitled "Basis of Charges to Unit Expense".

(9) Damage or losses incurred by fire, flood, storm, or any other cause not controllable by Unit Operator through the exercise of reasonable diligence. Unit Operator shall furnish the Operating Committee written notice of damages or losses incurred by fire, flood, storm, or other natural or accidental cause as soon as practicable after the happening thereof.

(10) Litigation, liens, judgments and liquidated claims involving the Unit Area or incident to the conduct of operations pursuant to the Plan of Unitization, including actual expenses incurred by Unit Operator in securing evidence for use in any such litigation. In event of litigation affecting the Unit Area, or the joint interests of Lessees, within the Unit Area, or arising out of operations conducted pursuant to the Plan of Unitization, the Operating Committee may authorize the employment of outside counsel whose fees and expenses shall be paid by Unit Operator and charged as Unit Expense, or the Operating Committee may authorize the use of Unit Operator's legal staff, in which event the compensation and expenses of members of Operator's legal staff for time devoted to such litigation shall be charged as Unit Expense.

(11) Insurance authorized or approved by the Operating Committee and all actual expenditures incurred and paid by Unit Operator in settlement or satisfaction of claims, judgments, losses and damages to the extent that the same are not covered by insurance authorized or approved by the Operating Committee. Unit Operator shall not pay in excess of Five Hundred Dollars ($500.00) to settle or compromise any claim involving the Unit Area or arising out of the operations conducted pursuant to the Plan of Unitization without first obtaining the approval of the Operating Committee.

(12) Taxes paid by Unit Operator for the benefit of the Lessees within the Unit Area, including ad valorem, property,

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gross production, occupation and any other taxes assessed against the Unit Area or any jointly owned

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property of any kind, the production from the Unit Area or the operations carried on pursuant to the Plan of Unitization.

(13) Overhead charges, which shall be in lieu of any charge for any part of the staff and expenses of Unit Operator's district office, division office and principal business office, wherever located, and in lieu of the compensation or salaries paid to managing officers and employees of Unit Operator (other than compensation, salaries and expenses of employees of Unit Operator provided for in Subdivision (4) hereof), but not in lieu of Unit Aea field office expenses in connection with operations conducted pursuant to the Plan of Unitization, and not in lieu of any other expenses incurred by Unit Operator in operations conducted pursuant to the Plan of Unitization to the extent that the same are a proper direct charge to Unit Expense in accordance with accepted accounting practices, which overhead charges shall be as follows:

1. $13.00 per well per month for all wells producing from the Unit Area at any time during the month.
2. $6.00 per well per month for all wells in the Unit Area which are not in production at any time during the month.

For the purpose of computing said overhead charges, the status of wells shall be as follows:

(a) Input or key wells and gas wells shall be included in the overhead schedule the same as producing oil wells.

(b) Wells permanently shut down but on which plugging operations are deferred shall be

dropped from the overhead schedule at the time the shut down is effected, and no overhead shall be charged in connection with the plugging operations when performed.

(c) Salt water disposal wells shall not be included in the overhead schedule.

The overhead charges above provided for may be increased or decreased from time to time by agreement between Unit Operator and the Operating Committee if in practice they are found to be greater or less than the indirect expenses in lieu of which they are allowed. At the end of two years after the Effective Date of the Plan of Unitization the overhead rates

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above specified shall be reduced to $10.00 per well per month for wells in production at any time during the month and $5.00 per well per month for wells not in production during the month, unless the Operating Committee specifically approves overhead charges at higher rates, after submission by Unit Operator of acceptable evidence that the charging of higher rates is reasonably required to cover the indirect expenses in lieu of which the overhead charges are allowed.

(14) Any other necessary and reasonable expenditure made by Unit Operator in the conduct of operations pursuant to the Plan of Unitization or for the maintenance or protection of the Unit Area or property of any kind owned jointly by the Lessees within the

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Unit Area, except that Unit Operator shall not charge as Unit Expense any expenditure or contribution made by Unit Operator toward any stock purchase plan, group life insurance, pension, retirement or bonus for employees of Unit Operator, other than expenditures or contributions which are imposed or assessed by governmental authority and other than such bonuses as may be authorized by the Operating Committee.

II.

BASIS OF CHARGES TO UNIT EXPENSE

(1) All materials and equipment purchased by Unit Operator for the Unit Area shall be procured from outside sources and shall be charged at their actual cost to Unit Operator after deducting any and all trade or cash discounts actually allowed off invoices or received by Unit Operator; Unit Operator may furnish materials or equipment from its own stocks only with the approval of the Operating Committee, on such basis as may be specified by the Operating Committee.

(2) Materials and equipment purchased from outside sources or furnished by Unit Operator from its own stocks, with the approval of the Operating Committee, shall not be warranted by Unit Operator beyond or back of the dealer's or manufacturer's guarantee, and in case of defective materials, credit shall not be passed until adjustment has been received by Unit Operator from the dealer or manufacturer.

(3) All services procured from outside sources shall be charged at their actual cost to Operator, after deducting any and all cash or other discounts actually allowed off invoices or received by Unit Operator.

(4) It is contemplated that all automotive equipment and other equipment and facilities required in the conduct of operations pursuant

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to the Plan of Unitization will be acquired, maintained and operated at Unit Expense, and that Unit Operator's exclusively owned equipment and facilities will be used in the conduct of such operations only if and when jointly owned equipment and facilities are inadequate or unavailable. For the use of Unit Operator's exclusively owned equipment and facilities, the following rates shall apply:

1. Water, gas, teaming, power and compressor service shall be charged at rates prevailing in the locality of the Unit Area.
2. Rates for automotive equipment shall be commensurate with cost of ownership and operation and in line with the schedule of rates adopted by the Petroleum Motor Transport Association as recommended uniform and standardized charges and in effect from time to time charges to be based on use in actual service on the Unit Area or in connection with the operations provided for in the Plan of Unitization. Truck, tractor and pulling unit rates shall include rates and expenses of drivers.
3. Rates for the use of drilling and cleaning out tools and other items of Unit Operator's exclusively owned machinery or equipment shall be sufficient to cover maintenance, repairs, depreciation and service furnished, but not in excess of rates prevailing in the locality of the Unit Area.

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III.

DISPOSITION OF SURPLUS MATERIALS AND EQUIPMENT

(1) Jointly owned materials and equipment shall be classed as surplus only with the approval of the Operating Committee, and materials and equipment so classed as surplus shall be disposed of or divided in kind in such manner and on such basis as may be authorized by the Operating Committee.

IV.

INVENTORIES

(1) Inventories of materials and equipment on the Unit Area shall be taken at such times (not oftener than annually) and in such manner as may be directed from time to time by the Operating Committee. Each inventory shall include such materials and equipment as are ordinarly considered controllable by Operators of oil and gas properties.

(2) Reconciliation of inventory with charges to Unit Expense shall be made in such manner as may be directed by the Operating Committee from time to time.

(3) Inventory adjustments shall be made by Unit Operator for overages and shortages, but Unit Operator shall be held accountable only for shortages due to lack of reasonable diligence.

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EXHIBIT "D"

PROCESSING AND COMPRESSION OF GAS DEFINITIONS

As used in this Exhibit "D":

A. The term "Unit gas" shall mean gas produced and saved from the Unit Area and not required in the conduct of operations provided for in said Plan of Unitization.

B. The term "liquids" shall mean unstabilized propane and heavier liquid hydrocarbons extracted from gas by processing as herein provided.

C. The term "liquid products" shall mean and include 26-70 natural gasoline, excess butane and propane.

D. The term "excess butane" shall mean and include butane in excess of that which is required to produce 26-70 natural gasoline.

E. The terms "26-70 natural gasoline", "butane" and "propane" shall mean the commercial liquids respectively defined as such according to the latest definitions issued by the Natural Gasoline Association of America from time to time, except that if at any time said Association should cease to define any of said terms, such of said terms as are no longer defined by said Association shall have the meaning generally accepted in the industry from time to time thereafter.

F. The term "residue gas" shall mean that portion of the gas remaining after extraction of the liquids therefrom, but shall not include any part thereof which is reasonably required in the operation of facilities used in the processing of gas.

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G. The term "Unit residue gas" shall mean residue gas allocated to Unit gas, as hereinafter provided.

H. A "cubic foot" of residue gas shall be that quantity of residue gas which occupies one cubic foot of space at an absolute pressure of sixteen and four-tenths (16.4) pounds per square inch and at a temperature of 60° Fahrenheit without correction for deviation from Boyle's law.

I. A "standard cubic foot" of gas shall be that quantity of gas which occupies one cubic foot of space at a pressure of four (4) ounces above an assumed atmospheric pressure of fourteen and four-tenths (14.4) pounds per square inch and at a temperature of 60° Fahrenheit.

[7493]

PART I

THE PROCESSING OF UNIT GAS BY PHILLIPS PETROLEUM COMPANY AND CONTINENTAL OIL COMPANY

ARTICLE I.

DEFINITIONS

As used in this Part I:

A. The term "Plant Owner" shall mean Phillips Petroleum Company and Continental Oil Company, and their respective successors and assigns.

B. The term "plant facilities" shall mean and include the gas processing plant and facilities now owned by Plant Owner and located in and adjacent to the Unit Area including all the gas receiving and gathering facil-

ities, residue gas delivery facilities, residue gas dehydration and compression facilities and all other facilities appurtenant thereto, and all additions thereto herein provided to be made by Plant Owner.

ARTICLE II.

PLANT FACILITIES

1. The plant facilities to be provided by Plant Owner shall include the following:

A. All facilities required for the receipt and gathering of Unit gas in Townships 13 and 14 in the Unit Area; and

B. Additions to Plant Owner's present processing, dehydration and compression facilities,

to the end that the plant facilities shall have sufficient capacity to gather, receive and process approximately 125,000,000 standard cubic feet of gas per day, delivered from oil and gas separators at a pressure of forty (40) pounds per square inch gauge, and to dehydrate and deliver at a pressure of five hundred (500) pounds per square inch gauge, approximately 70,000,000 cubic feet of residue gas per day.

2. The plant facilities to be provided by Plant Owner shall also include the facilities specified in Part III of this Exhibit "D".

3. The plant facilities shall be provided, maintained and operated by Plant Owner at Plant Owner's expense except as otherwise hereinafter specifically provided. Use of the plant facilities, as

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they may exist from time to time, shall be confined to the gathering and processing of Unit gas, except as follows:

A. Plant Owner shall have the right to use the plant facilities for the receipt and processing of approximately 5,500,000 standard cubic feet of gas per day from the presently producing horizons in the Edmond Field and in the Britton Field, in the vicinity of Plant Owner's processing plant.

B. If at any time the capacity of the plant facilities should be substantially in excess of the quantity of Unit gas, plus the quantity of said Edmond and Britton Fields gas then deliverable to Plant Owner, Plant Owner shall have the right to receive and process in the plant facilities, gas from other sources, to the extent of the excess of the capacity of the then existing plant facilities over the quantity of Unit gas and said Edmond and Britton Fields gas then deliverable to Plant Owner; provided, however, that residue gas from the gas from such other sources so received and processed shall not be marketed by Plant Owner except to the extent that the market demand for residue gas from Plant Owner's processing plant may be in excess of the quantity of Unit residue gas and said Edmond and Britton Fields residue gas available for sale at Plant Owner's processing plant.

C. If Plant Owner should increase the capacity of the plant facilities for the purpose of receiving and processing gas other than Unit gas, Plant Owner shall have the right to receive and process gas other than Unit gas to the extent of the increased capacity provided for such other gas, but Plant Owner shall not sell or contract to sell residue gas from such other gas except to

the extent that the market demand for residue gas from Plant Owner's processing plant at the time of such sale or the making of such contract to sell may be in excess of the quantity of Unit residue gas and said Edmond and Britton Fields residue gas available for sale at Plant Owner's processing plant.

The capacity of the plant facilities herein specified to be provided by Plant Owner, minus the quantity of gas (other than Unit gas), which Plant Owner is permitted to receive in accordance with this Section 3, is hereinafter referred to as the "available capacity" of the plant facilities.

ARTICLE III.

QUANTITY OF UNIT GAS DELIVERABLE TO PLANT OWNER

1. There shall be delivered to Plant Owner for processing, in each month, a quantity of Unit gas equal to the lesser of (a) the available capacity of the plant facilities during such month, or (b) two-thirds

(2/3) of the Unit gas produced and saved during such month. However if at any time the available capacity of the plant facilities should exceed two-thirds (2/3) of the Unit gas then being produced and saved, and if the available capacity of the processing plant and gathering facilities referred to in Part II hereof should be less than one-third (1/3) of the Unit gas then being produced and saved, then, during the time such condition continues, there shall be delivered to Plant Owner for processing a daily quantity of Unit gas equal to the lesser of (a) the available capacity of

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the plant facilities, or (b) the total quantity of Unit gas then being produced and saved, minus the available capacity of the processing plant and gathering facilities referred to in Part II hereof.

2. The Unit gas deliverable to Plant Owner shall be delivered in accordance with Part III hereof.

3. The Unit gas received by Plant Owner shall be processed by Plant Owner for the extraction of all liquids economically recoverable therefrom by the efficient operation of the installed plant facilities in accordance with customary and accepted practices in the operation of like facilities.

ARTICLE IV.

APPORTIONMENT OF LIQUIDS

1. The quantity of liquids recovered from the Unit gas delivered to Plant Owner in each month shall be determined as follows:

A. The quantity of liquids recoverable from the Unit gas delivered to Plant Owner during the month shall be calculated by testing samples of such Unit gas to determine the test gallons recoverable per thousand cubic feet thereof and multiplying the quantity so determined by the number of thousands of cubic feet of Unit gas delivered to Plant Owner during the month.

B. The quantity of liquids recoverable from gas (other than Unit gas) delivered to Plant Owner during the month shall be calculated by testing samples of such other gas to determine the test gallons recoverable per thousand cubic feet thereof and multiplying

the quantity so determined by the number of thousands of cubic feet of such other gas delivered to Plant Owner during the month.

C. The total quantity of liquids actually recovered during the month shall be apportioned between Unit gas and other gas in the ratio that the quantity of liquids calculated to be recoverable from the Unit gas delivered to Plant Owner during the month, as provided in A. above, bears to the quantity of

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liquids calculated to be recoverable from all other gas received by Plant Owner during the month, as provided in B. above.

D. The quantity of liquids apportioned to Unit gas for the month, in accordance with Subdivision C. hereof, shall be deemed to constitute the quantity of liquids recovered from Unit gas during the month.

2. The quantity of each liquid product contained in the liquids recovered from Unit gas in each month shall be determined by making a test or tests of a representative composite sample or samples of all the liquid hydrocarbons actually recovered from all gas processed in the plant facilities during the month and by applying the results of such test to the quantity of liquids recovered from Unit gas during each month. Such test shall be made once a month, or oftener if requested by either party, in accordance with customary and accepted practices and in such manner as to determine, as accurately as reasonably possible, the quantity of each liquid product contained in such liquids.

3. As full compensation to Plant Owner for the gathering and processing of the Unit gas delivered to Plant Owner

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in each month, and for the delivery of Unit residue gas (other than that deliverable at a pressure of five hundred (500) pounds per square inch gauge) as hereinafter provided, Plant Owner shall own and be entitled to retain that percentage of the liquids recovered from the Unit gas during such month which is applicable for such month, on the basis of the weighted average value (determined as hereinafter provided) per gallon of the liquids recovered from Unit gas during such month, in accordance with the following table:

Weighted Average Value Per Gallon of Liquids	Plant Owner's Percentage
Less than 1.25¢	88.46
1.25¢, but less than 1.50¢	86.10
1.50¢, but less than 1.75¢	83.70
1.75¢, but less than 2.00¢	81.70
2.00¢, but less than 2.25¢	79.80
2.25¢, but less than 2.50¢	78.20
2.50¢, but less than 2.75¢	76.85
2.75¢, but less than 3.00¢	75.65

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3.00¢, but less than 3.25¢	74.60
3.25¢, but less than 3.50¢	73.70
3.50¢, but less than 3.75¢	72.80
3.75¢, but less than 4.00¢	72.00
4.00¢, but less than 4.25¢	71.30
4.25¢, but less than 4.50¢	70.50

4.50¢, but less than 4.75¢	69.75
4.75¢, but less than 5.00¢	68.95
5.00¢, but less than 5.25¢	68.20
5.25¢, but less than 5.50¢	67.45
5.50¢, but less than 5.75¢	66.65
5.75¢, but less than 6.00¢	65.85
6.00¢ and above	65.10

4. The weighted average value per gallon of the liquids recovered from Unit gas during any month shall be the higher of the following prices:

A. The weighted average price per gallon received by Plant Owner for any such liquids sold by them during such month to a bona fide purchaser or purchasers in a bona fide sale or sales, and delivered in the form in which recovered in Plant Owner's processing plant, less transportation charges thereon if delivery thereof is made elsewhere than at or in the immediate vicinity of said processing plant and if such charges are included in the price received by Plant Owner; or

B. The weighted average price per gallon of the liquid products contained in such liquids, calculated as follows:

(1) Multiply the price applicable to 26-70 natural gasoline for such month by 100% of the number of gallons of 26-70 natural gasoline contained in such liquids;

(2) Multiply the price applicable to butane for such month by 75% of the number of gallons of excess butane contained in such liquids;

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(3) Multiply the price applicable to propane for such month by 50% of the number of gallons of propane contained in such liquids:

(4) Divide the total of the three amounts obtained by the multiplications above provided for by the total number of gallons comprised in 100% of the 26-70 natural gasoline, 75% of the excess butane and 50% of the propane contained in such liquids, the quotient thus obtained being such weighted average price.

For the purposes of the foregoing calculation, the quantity of each liquid product contained in such liquids shall be as determined in accordance with Section 2 of this ARTICLE IV, and the prices applicable thereto shall be the following:

(1) The price per gallon of 26-70 natural gasoline for such month shall be one-fourth cent (1/4¢) less than the daily average of the low prices quoted during such month for 26-70 natural gasoline or the nearest equivalent thereof, for Group III, in The National Petroleum News or in such other publication of like nature as may hereafter succeed said The National Petroleum News and whose quotations are generally accepted in the industry as accurate; provided, however, that if neither The National Petroleum News nor any such successor publication should publish quotations for 26-70 natural gasoline or its nearest equivalent for Group III, then the price of 26-70 natural gasoline for such month shall be one-fourth cent (1/4¢) per gallon less than the daily average market price of such natural gasoline or its nearest equivalent as determined by bona fide sales

made during the month in the area comprising Group III.

(2) The price per gallon of excess butane for such month shall be one-fourth cent (1/4¢) less than the weighted average price received by Phillips Petroleum Company for all butane sold by it during the month and delivered from its fractionating plant in Oklahoma City to bona fide purchasers f. o. b. railroad tank cars.

(3) The price per gallon of propane for such month shall be one-fourth cent (1/4¢) less than the weighted average price received by Phillips Petroleum Company for all propane sold by it during the month and delivered from its fractionating plant in Oklahoma City to bona fide purchasers f. o. b. railroad tank cars.

5. That portion of the liquids recovered from Unit gas in each month which remains after deduction of the percentage thereof which becomes the property of Plant Owner as above provided, shall constitute Unit Production and shall be allocated as such in accordance with the Plan of Unitization.

* * *

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RESIDUE GAS AGREEMENT

THIS AGREEMENT made this *1st* day of .....

by and between .....

.....

.....

hereinafter called "Lessee" (whether one or more, and

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PHILLIPS PETROLEUM COMPANY and CONTINENTAL OIL COMPANY, hereinafter together referred to as "Plant Owners",

WITNESSETH, That

WHEREAS, the Corporation Commission of Oklahoma has heretofore approved the Plan of Unitization for the West Edmond Hunton Line Unit and Exhibit "D" attached to and made part of said Plan of Unitization provides among other things for the processing by Plant Owners of gas produced from the Unit Area for the recovery of liquids therefrom and for the retention by Plant Owners of a portion of such liquids as compensation for the processing of said gas, the balance of such liquids, together with the residue gas remaining from said gas and not taken by the Unit for injection or other operating purposes, to be allocated as Unit Production to and among the Separately Owned Tracts in the Unit Area in accordance with said Plan of Unitization; and

WHEREAS, Lessee is the owner of all or a part of the oil and gas lease-hold interest in such Separately Owned Tract described in Exhibit "A" hereto attached and hereby made part hereof and as such is entitled to receive in kind or dispose of all or a part of the Unit Production allocated to each such Tract, the interest of the Lessee in each such Tract and the percentage of the Unit Production allocated thereto which Lessee has the right to receive in kind or dispose of, being as shown in said Exhibit "A"; and

WHEREAS, Plant Owners will own and be entitled to dispose of a portion of the residue gas remaining from gas processed by Plant Owners; and

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WHEREAS, under date of July 5, 1945, Plant Owners entered into a contract with Cities Service Gas Company which, as amended by letters of agreement dated respectively May 24, 1946 and December 23, 1946, provides for the sale of residue gas, a true copy of said contract as amended being hereto attached, marked Exhibit "B" and hereby made part hereof, said contract as so amended being hereinafter referred to as the "Cities Service contract";

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, it is agreed by and between Lessee and Plant Owners, as follows:

1. As herein used:

   A. The term "available Unit residue gas" shall mean residue gas which remains from gas processed by plant owners and which is allocated as Unit Production in accordance with said Plan of Unitization and Exhibit "D" thereto attached.

   B. The term "plant residue gas" shall mean residue gas (other than available Unit residue gas) which remains from gas processed by Plant Owners, and which is available for sale by Plant Owners, within the limitations imposed by said Exhibit "D".

   C. The term "available residue gas" shall mean and include both available Unit residue gas and plant residue gas.

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D. The term "Lessee's residue gas" shall mean and include all available residue gas which is allocated in accordance with said Plan of Unitization to the Separately Owned Tract(s) described in said Exhibit "A" and which Lessee has the right to receive in kind or dispose of on the basis of the percentage interests set forth in said Exhibit "A" with respect to said Separately Owned Tract(s).

E. The term "delivery capacity" shall mean the daily capacity to deliver dehydrated residue gas at a pressure of five hundred (500) pounds per square inch gauge of the plant facilities specified in Exhibit "D" attached to said Plan of Unitization, to be provided by Plant Owners, plus the daily capacity of any additions made thereto by Plant Owners (other than additions made by Plant Owners for the purpose of delivering Plant Residue Gas), but minus the daily quantity of residue gas taken from Plant owners by said Unit for gas injection purposes at a pressure of five hundred (500) pounds per square inch gauge.

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F. The term "Lessee's share of the delivery capacity" shall mean that proportion of the delivery capactiy which is equal to the proportion borne by the daily quantity of Lessee's residue gas to the daily quantity of available residue gas, as applied to a particular time.

G. A "cubic foot of residue gas" shall be that quantity of residue gas which occupies one cubic foot of space at an absolute pressure of sixteen and four tenths (16.4) pounds per square inch and

at a temperature of 60° Fahrenheit, without correction for deviation from Boyle's Law.

2. Plant Owners shall deliver Lessee's residue gas, dehydrated and at a pressure of five hundred (500) pounds per square inch gauge as specified in the Cities Service contract, to such purchaser or purchasers as may be designated by Lessee; provided, however, that the daily quantity of Lessee's residue gas so delivered shall not exceed either (a) Lessee's share of the delivery capacity at such time, or (b) the daily quantity of Lessee's residue gas deliverable at such time to a purchaser or purchasers designated by Lessee.

3. For the dehydration and delivery of Lessee's residue gas as above provided, Lessee agrees to pay to Plant Owners compensation at the rate of two and one-half cents (2½¢) per thousand cubic feet of Lessee's residue gas delivered by Plant Owners at a pressure of five hundred (500) pounds per square inch gauge. However, said rate of compensation is based on the annual average of wholesale prices for all commodities as shown by The Annual Index of Wholesale Prices for all Commodities as published by the United States Department of Labor for the year 1944, said Index as now published being based on the annual average for the year 1926 as one hundred percent (100%) and each "point" being one percent of said annual average for the year 1926. Therefore, if the annual average of said wholesale prices as shown in said Index as published by said Department of Labor for the year 1946 or any subsequent calendar year should be more than twenty (20) points above or below

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the annual average for the year 1944 as shown in said Index as published for that year, then said rate of compensation for delivery of Lessee's residue gas, as above provided, during the twelve (12)

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months next succeeding the date of publication of the annual Index showing such higher or lower average, shall be increased or decreased, as the case may be, in proportion to the increase or decrease of such annual average above or below the annual average as published in said annual Index for the year 1944.

4. Within twenty-five (25) days after the end of each month, Plant Owners shall submit to Lessee a statement showing the quantity of Lessee's residue gas delivered during such month and the amount owing by Lessee for the quantity of Lessee's residue gas delivered by Plant Owners at a pressure of five hundred (500) pounds per square inch gauge and dehydrated as required by the Cities Service contract, which amount shall be paid by Lessee within ten (10) days after receipt of such statement, unless otherwise paid as hereinafter provided.

5. During any time when the daily quantity of Lessee's residue gas exceeds Lessee's share of the delivery capacity, Plant Owners shall deliver to Lessee or to such purchaser or purchasers as may be designated by Lessee, such part or all of the daily quantity of Lessee's residue gas in excess of Lessee's share of the delivery capacity as Lessee may from time to time specify in writing to Plant Owners, provided

Lessee or the purchaser or purchasers designated by Lessee make all necessary arrangements for the receipt and measurement thereof at or in the immediate vicinity of Plant Owners' processing plant, delivery thereof to be made by Plant Owners without charge at the normal operating pressure of Plant Owners' low pressure processing facilities and without dehydration.

6. During the life of the Cities Service contract, Plant Owners shall deliver Lessee's residue gas to Cities Service Gas Company, its successors or assigns, in accordance with said contract, and Lessee hereby designates said company, its successors or assigns, as the purchaser of Lessee's residue gas, upon and subject to the following provisions:

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A. During any time when the daily quantity of residue gas being taken under the Cities Service contract is less than the daily quantity of available residue gas deliverable thereunder, the residue gas being taken under said contract shall be apportioned between Lessee's residue gas and other available residue gas in the proportion that the daily quantity of Lessee's residue gas bears to the daily quantity of all available residue gas deliverable under said contract, it being intended that Lessee's residue gas shall be delivered under said contract ratably with all other available residue gas deliverable thereunder.

B. Plant Owners shall collect and receive, for the account of Lessee, the purchase price payable under the Cities Service contract for the quantity of Lessee's residue gas delivered under said Con-

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tract in each month. Out of the amount so collected by Plant Owners in respect of each month, Plant Owners shall retain the compensation payable by Lessee in respect to the quantity of Lessee's residue gas delivered during such month under said contract, and the balance of the amount collected shall be paid by Plant Owners to Lessee.

C. Any optional right reserved or granted to Plant Owners in the Cities Service contract shall be exercised only with the written consent of the owners of at least fifty-one percent (51%) of the available residue gas then being delivered under said contract. If and whenever Plant Owners receive written request to exercise any such optional right, signed by the owners of fifty-one percent (51%) or more of the available residue gas then being delivered under said contract, Plant Owners shall exercise such right in accordance with the terms of said contract. Plant Owners, as the owners of a portion of the available residue gas deliverable under said contract, shall have the right to join in any such consent or request.

7. If and whenever a market for available residue gas not deliverable under the Cities Service contract is obtained either by Lessees or by Plant Owners, the party obtaining such market shall give the other party written notice thereof, stating the name of the purchaser and the price and terms and conditions of purchase. For thirty (30) days after receipt of such notice, the party receiving the notice shall have the right, at its option, to share in the market so

obtained in the proportion that the daily quantity of available residue gas then saleable by such party in such market bears to the total daily quantity of available residue gas then saleable in such market, at the price and on the terms and conditions stated in such notice, such option to be exercisable only by written notice

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of exercise given to the party obtaining the market within said thirty-day period. If at any time Lessee gives Plant Owners written notice, as above provided, with respect to a market obtained by Lessee, Plant Owners shall offer to all other owners of available residue gas who have entered into agreements with Plant Owners similar to this agreement, an opportunity to share in such market, in the same manner as if such market had been obtained by Plant Owners, but Plant Owners shall not be obligated to sell their available residue gas in such market otherwise than at their election.

8. Lessee hereby grants to Plant Owners a lien upon all of Lessee's residue gas which is deliverable by Plant Owners at a pressure of five hundred (500) pounds per square inch gauge, for the payment to Plant Owners of the compensation hereinabove provided to be paid by Lessee in respect to the quantity of Lessee's residue gas delivered at said pressure, and Lessee hereby authorizes Plant Owners to collect from any purchaser or purchasers of Lessee's residue gas delivered at said pressure, the compensation payable to Plant Owners in respect of the quantity of Lessee's residue gas delivered to such purchaser or purchasers.

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9. Adequate facilities for the receipt and measurement of the quantity of Lessee's residue gas delivered by Plant Owners to Lessee or a purchaser designated by Lessee shall be provided without expense to Plant Owners. Except with the written consent of Plant Owners, the quantity of Lessee's residue gas delivered by Plant Owners shall be measured by an orifice type meter of standard manufacture. Each such meter shall be tested at least once every three (3) months, without expense to Plant Owners, and such additional tests shall be made as may be requested by Plant Owners from time to time; the expense of each additional test shall be borne by Plant Owners unless the test discloses a meter inaccuracy in excess of two percent (2%), in which event the

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expense of the additional test shall be borne by Lessee or the purchaser from Lessee who installed the meter tested. Plant Owners shall be given at least ten (10) days written notice of each such test, and shall have the right to have a representative witness each test. If test of any meter discloses inaccuracy, the meter shall be adjusted so as to measure accurately the quantity of residue gas passing through it, but no retroactive adjustment shall be made unless the meter test discloses inaccuracy in excess of two percent (2%), in which event adjustment shall be made for the time during which the inaccuracy existed, if determinable or agreed upon, but otherwise for one-half (½) the time since the meter was last tested and found to be accurate.

10. Whenever Lessee's residue gas and available residue gas of any other owner or owners thereof is deliverable to the same purchaser, all of the available residue gas deliverable to such purchaser shall be delivered in a common stream and Lessee shall not be obligated to provide facilities for the receipt and measurement of Lessee's residue gas separately from other available residue gas being delivered to such purchaser.

11. Lessee covenants that Lessee has full right and authority to receive and authorize the delivery, as herein provided, of all of Lessee's residue gas, and that Lessee will indemnify Plant Owners against the lawful claims of any and all persons claiming any right or title to or interest in Lessee's residue gas.

12. During any time when the daily quantity of Lessee's residue gas is in excess of the quantity of Lessee's residue gas being taken by Lessee or a purchaser or purchasers designated by Lessee, Plant Owners shall have the right, as agent of and for the account of Lessee, to sell and deliver all or any part of such excess at the best price obtainable therefor at Plant Owners' plant and to collect and receive the purchase price payable for the quantity so sold and delivered. Plant Owners' compensation for the dehydration and delivery of the quantity of Lessee's residue gas so sold and delivered to be

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deducted from the amount collected and the balance thereof to be paid to Lessee. However, Plant Owners shall not be

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obligated so to sell and deliver any part of such excess quantity of Lessee's residue gas.

13. This agreement shall become effective upon the Effective Date of said Plan of Unitization and shall remain in force so long as gas from the Unit Area is processed by Plant Owners in accordance with Exhibit "D" attached to said Plan of Unitization.

14. Any notice herein provided or permitted to be given by either party to the other shall be deemed given if and when deposited in the United States mails, duly registered and properly addressed to the party to whom given. For the purpose of such notices, the proper address of Lessee shall be:

and the proper address of Plant Owners shall be: Phillips Petroleum Company, Attention Gasoline Department, Bartlesville, Oklahoma. However, either party may specify as its proper address any other post office address within the continental limits of the United States by giving to the other party at least fifteen (15) days' written notice thereof.

15. Neither party shall be under any liability to the other for any failure or delay in the performance of such party's obligations hereunder, to the extent that such failure or delay is caused by fire, action of the elements, strikes or other differences with workmen, restrictions or restraints imposed by law or by order or regulation of duly constituted public authority, whether federal, state or local, acts of civil or military authorities, acts of the public enemy, or any other cause reasonably beyond the control of the party in default, whether or not similar to the causes hereinabove

enumerated. However, if and whenever either party is prevented from performing or delayed in performance of such party's obligations hereunder by any such cause, such party shall proceed

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with due diligence to resume performance of its obligations hereunder, upon the removal of such cause, but nothing herein contained shall be deemed to obligate either party to settle a strike or other difference with workmen otherwise than on such terms as such party may deem proper in the sole discretion of such party.

16. This agreement shall be binding upon and inure to the benefit of the heirs, personal representatives, successors and assigns of Lessee, and the successors and assigns of Plant Owners. Transfer of all or any part of Lessee's interest shall not be binding on Plant Owners unless and until Plant Owners receive written notice thereof, accompanied by the original or a certified copy of the instrument of transfer. Lessee agrees not to make any assignment, mortgage or other transfer of all or any part of Lessee's oil and gas leasehold interest in the lands described in said Exhibit "A" without making the same expressly subject to the provisions of this agreement.

IN WITNESS WHEREOF, this agreement has been executed by the parties on the day and year first above written.

* * *

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SOHIO PETROLEUM COMPANY

Midland Building
Cleveland 15, Ohio

October 1, 1947

Phillips Petroleum Company
(as Operator of the Edmond
Gasoline Plant and as Operator of
The Hunton Gasoline Plant),
Bartlesville, Oklahoma

Gentlemen: Attention: Mr. Legatski

Exhibit D to the Plan of Unitization of the West Edmond Hunton Lime Unit provides for the allocation as Unit production of the Unit's percentage of liquids or liquid products extracted or recovered from Unit gas processed in the Edmond Gasoline Plant owned by Phillips Petroleum Company and Continental Oil Company or in the Hunton Gasoline Plant now owned by Phillips Petroleum Company and others, and for the allocation as Unit production of residue gas remaining from such Unit gas after processing and not taken by the Unit for operating purposes. Article VII of said Plan of Unitization provides, among other things, that the Unit Operator is authorized to market and sell, or itself purchase, the portion of Unit production not taken in kind by a person entitled to take and receive the same in kind, the proceeds thereof to be paid by the Unit Operator to the person or persons for whose account the same is so marketed.

We are informed that various lessees of the West Edmond Hunton Lime Unit have heretofore entered into agreements with the owners of the Edmond Gasoline Plant for the sale

of liquids and residue gas which they respectively are entitled to receive in kind as Unit production, and that various lessees of the Unit have also entered into agreements with the owners of the Hunton Gasoline Plant for the sale of liquid products and residue gas which they respectively are entitled to receive in kind as Unit Production. However, we understand that a number of the lessees of the Unit have not entered into such agreements, and it is possible that some or all of these lessees will not arrange to receive in kind or otherwise dispose of the liquids or liquid products and residue gas which they respectively may be entitled to receive in kind as Unit production from time to time. Accordingly our company as Unit Operator of the West Edmond Hunton Lime Unit sumbits to you as Operator of the Edmond Gasoline Plant and as Operator of the Hunton Gasoline Plant, the following proposal:

Cleveland 15, Ohio L

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SOHIO PETROLEUM COMPANY

Phillips Petroleum Company
(as Operator of the Edmond
Gasoline Plant and as Operator of
The Hunton Gasoline Plant) Page 2

October 1, 1947

1. This proposal relates only to that portion of the liquids, liquid products and residue gas recovered or remaining from Unit gas processed in either of said plants which is allocated as Unit production in accordance with Exhibit D to said Plan of Unitization but which is not taken in kind or otherwise disposed of by the person or persons entitled to receive the same in kind under said Plan of Unitization.

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For convenience, that portion of such liquids, liquid products or residue gas which at any time is not taken in kind or otherwise disposed of by the person or persons entitled to receive the same in kind is hereinafter referred to as the "unclaimed portion" of such liquids, liquid products or residue gas.

2. Our company as Unit Operator of said Unit hereby sells to the owners of the Edmond Gasoline Plant, and said owners hereby agree to purchase, the unclaimed portion of liquids at any time allocable as Unit production out of the liquids recovered from Unit gas processed in said plant, such sale and purchase to be at the price and on the terms and conditions applicable at such time to the purchase by said plant owners of liquids allocable as Unit production to lessees of said Unit who are then selling their respective portions of said liquids to said plant owners under written agreements for the sale thereof.

3. Our company as Unit Operator of said Unit hereby sells to the owners of the Hunton Gasoline Plant, and said owners hereby agree to purchase, the unclaimed portion of liquid products at any time allocable as Unit production out of the liquid products recovered from Unit gas processed in said plant, such sale and purchase to be at the price and on the terms and conditions applicable at such time to the purchase by said plant owners of liquid products allocable as Unit production to lessees of said Unit who are then selling their respective portions of said liquid products to said plant owners under written agreements for the sale thereof.

4. The unclaimed portion of residue gas remaining at any time from Unit gas processed in the Edmond Gasoline Plant is hereby sold by us, and is to be delivered by you, to Cities Service Gas Company to the same extent, at the same price and on the same terms and conditions as residue gas

is, at the same time, being sold and delivered to Cities Service Gas Company pursuant to written agreements entered into with the owners of the Edmond Gasoline Plant by lessees of said Unit, with respect to the disposition of their respective portions of such residue gas. The unclaimed portion of residue gas remaining at any time from Unit gas processed in the Hunton Gasoline Plant is hereby sold by us, and is to be delivered by you, to Oklahoma Natural Gas Company, to the same extent, at the same price, and on the same terms and conditions as residue gas is, at the same time, being sold and delivered to Oklahoma Natural Gas Company pursuant to written agreements entered into with the owners of the Hunton Gasoline Plant by lessees of said Unit, with respect to the disposition of their respective portions of

such residue gas. Whenever all the residue gas allocable as Unit production from either plant is in excess of the quantity of residue gas then deliverable to Cities Service Gas Company or Oklahoma Natural Gas Company (as the case may be), the quantity of residue gas then deliverable to Cities Service Gas Company or Oklahoma Natural Gas Company (as the case may be) is to be apportioned ratably between the unclaimed portion of all such residue gas and the remaining portion of all such residue gas. The owners

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of the Edmond Gasoline Plant and the owners of the Hunton Gasoline Plant are respectively to be entitled to the same charges for dehydration and compression of unclaimed residue gas delivered to Cities Service Gas Company or Oklahoma Natural Gas Company (as the case may be) at any time, as those then applicable to other residue gas allocated as Unit production.

5. You are to pay direct to the persons entitled thereto the proceeds derived from the sale of the unclaimed portion of liquids, liquid products and residue gas allocable as Unit production from Unit gas processed in said plants, subject to the same deductions and charges as those applicable from time to time under written agreements entered into with the owners of said plants respectively by lessees of said Unit with respect to the sale of their respective portions of such liquid, liquid products and residue gas.

6. It is the intent of this proposal that the unclaimed portion of liquids or liquid products and residue gas allocable as Unit production in respect of Unit gas processed in each of said plants be sold or disposed of from time to time in the same manner, to the same extent and on the same terms and conditions as the portion of such liquids or liquid products and residue gas which, at the time of sale or disposition of such unclaimed portion, is covered by and subject to agreements entered into with the owners of such plant by lessees entitled to receive the same in kind.

To indicate your assent to the foregoing proposal, please sign the acceptance on the copy of this letter herewith enclosed and return it to us, whereupon this letter shall constitute the agreement between us on the matters above set forth, to remain in force unless and until terminated by either party by giving to the other party at least thirty (30) days' advance written notice of termination.

Very truly yours,

SOHIO PETROLEUM COMPANY
(as Unit Operator of the
West Edmond Hunton Lime Unit)

By s/s/ S. A. SWENSRUD
Vice- President

ACCEPTED this 1st day of October, 1947.

PHILLIPS PETROLEUM COMPANY
(as Operator of the Edmond Gasoline Plant and as Operator of the Hunton Gasoline Plant)

By /s/ F. E. RICE
Vice President

• • •

[7621]

AGREEMENT FOR AMENDMENT OF
EXHIBIT "D"
PLAN OF UNITIZATION
WEST EDMOND HUNTON LIME UNIT

This AGREEMENT made and entered into this 15 day of March, 1949 by the following parties:

West Edmond Hunton Lime Unit created pursuant to Order No. 21445 of the Corporation Commission of Oklahoma entered on the 30th day of July, 1948, said Unit being hereinafter referred to as the "Unit";

Phillips Petroleum Company and the Continental Oil Company, as the owners of the gas processing plant known as Edmond Gasoline Plant, located near the Unit area of the Unit, said Companies as such plant owners being hereinafter referred to as "Edmond Plant Owners"; and

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Phillips Petroleum Company, West Edmond Oil Company, The Continental Oil Company, Stanolind Oil and Gas Company, Mid-Continent Petroleum Corporation and Sohio Petroleum Company, as owners of the gas processing plant known as the Hunton Gasoline Plant, located within the Unit area of the Unit, said Companies as such plant owners being hereinafter referred to as the "Hunton Plant Owners"; said Hunton Gasoline Plant is the gas processing plant referred to as owned by Peppers Refining Company in Exhibit "D" to the Plan of Unitization of the West Edmond Hunton Lime Unit created pursuant to Ordér No. 20212 of the Corporation Commission of Oklahoma, the Hunton Plant Owners having succeeded to the rights and obligations of said Peppers Refining Company under said Exhibit "D"; and,

WITNESSETH THAT

WHEREAS, the Unit's Plan of Unitization as approved by the Corporation Commission of Oklahoma, incorporated as part thereof the Plan of Unitization of the West Edmond Lime Unit created pursuant to said Order No. 20212 of the Corporation Commission of Oklahoma,

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including Exhibit "D" thereto entitled "Processing and Compression of Gas," which Exhibit "D" is hereinafter referred to as the "Processing Exhibit".

WHEREAS, the Operating Committee of the Unit has deemed it advisable and necessary to modify and amend said Exhibit "D" to the extent and in the respects hereinafter set forth, in the interests of conservation and in order

to provide Unit residue gas for injection within the Unit area, in event the Operating Committee should authorize such gas injection; and

WHEREAS, the execution of this Agreement has been authorized by lessees of the Unit, having at least 66-2/3% of the total voting interest in the Unit:

NOW, THEREFORE, in consideration of the premises and of the undertakings of the parties hereto, respectively, as hereinafter set forth, it is agreed by and among the parties hereto as follows:

ARTICLE I — DEFINITIONS

1. All words and terms which are defined in said Processing Exhibit or in any other portion of the Unit's Plan of Unitization shall have the same meaning, as used in this agreement, as that ascribed thereto in said Processing Exhibit or in any other portion of said Plan of Unitization.

ARTICLE II — GAS GATHERING

2. The Edmond Plant Owners and the Hunton Plant Owners have heretofore entered into an agreement providing for the following, contingent upon the execution of this Agreement:

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(a) The consolidation of the existing Unit gas gathering facilities now owned by them respectively, for the purpose of increasing the efficiency of the two systems in the gathering of Unit gas.

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(b) The enlargement of existing lines for the gathering of Unit gas, so as to permit the gathering of increased quantities of Unit gas in certain portions of the Unit area.

(c) The construction and installation of new gathering lines and other facilities for the gathering of Unit gas from tank batteries in Townships 13 and 14 of the Unit area, not now connected to either of the existing gas gathering systems.

Reference is made to the following Exhibits which are hereto attached and hereby made a part hereof:

Exhibit "A" which shows the location and sizes of the existing Unit gas gathering lines.

Exhibit "B" which shows the location and sizes of the Unit gas gathering lines as they will exist after consolidation, enlargement and extension, and also shows the location of a proposed compressor plant to permit the gathering of increased volumes of Unit gas; the proposed gas gathering system as shown on said Exhibit "B" will connect with every tank battery now located in Townships 13 and 14 in the Unit area.

Exhibit "C" which shows the estimated production of Unit gas from various portions of the Unit area up to January 1, 1955, both under normal depletion and under an injection program of 36 million cubic feet of gas per day in the Chimney Hill section of the Unit area.

Exhibit "D" which shows the estimated pressures at which gas will be produced from various portions of the Unit area up to January 1, 1955, both under normal depletion and under an in-

jection program of 36 million cubic feet of gas per day in the Chimney Hill section of the Unit area.

The tank batteries designated on Exhibit "B" in Townships 13 and 14 are hereby designated by the Unit as the central tank batteries from which the Edmond Plant Owners and the Hunton Plant Owners are to gather Unit gas.

The proposed gas gathering system as shown on said Exhibit "B" has been designed to provide capacity adequate for the gathering of the estimated quantities of Unit gas shown on said Exhibit "C" when produced at the pressures shown on said Exhibit "D".

3. Edmond Plant Owners and Hunton Plant Owners agree to perform as soon as reasonably possible the preliminary engineering for, and to commence as soon as reasonably possible and prosecute to completion with reasonable diligence the construction and installation of, the enlarged and extended facilities for gathering Unit gas as shown on Exhibit "B" (including the above-mentioned compressor plant with 1800 horsepower) to the end that the system and facilities for the gathering of Unit gas as shown on said Exhibit "B" may be completed and ready for operation by approximately November 30, 1949. However, if the use of any portion of the gathering facilities shown on said Exhibit "B" will not initially be required for the gathering of Unit gas on the basis of the estimates shown in Exhibits "C" and "D", the installation thereof may be postponed until use thereof is required, at which time Plant Owners will install the same at their sole cost. After completion of the enlarged

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and extended gas gathering facilities, the Edmond Plant Owners and the Hunton Plant Owners will cooperate with the Unit Operator in the operation of

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the entire gas gathering system in such manner as to gather all of the Unit gas that may be produced in Townships 13 and 14 of the Unit area, within the limits of the capacity of the gas gathering system when operated efficiently and in conformity with customary practices and within the limits of the utilization capacities of the Edmond Gasoline Plant and the Hunton Gasoline Plant as defined in Paragraph 9, hereunder. From time to time as and when operating conditions permit, deviations from said Exhibit "B" and substitutions in and removals of portions of the gathering facilities as shown on said Exhibit "B" may be made, with the written approval of Unit Operator.

ARTICLE III — HUNTON GASOLINE PLANT

4. The Hunton Plant Owners agree to make such alterations in and additions to the Hunton Gasoline Plant as may be necessary to convert said plant from low pressure operation to conventional high pressure operation having a capacity to process at least 60 million cubic feet of gas daily and to deliver approximately 45 million cubic feet of residue gas daily, dehydrated and at a pressure of 500# per square inch gauge when the pressures at the central tank batteries designated on said Exhibit "B" as the central tank batteries from which said plant is to receive Unit gas are equal to the pressures indicated on Exhibit "D" for said central tank batteries

for the year 1949, except that the Unit is to provide the compression and dehydration facilities hereinafter mentioned. Although alterations and additions to the Hunton Gasoline Plant will be designed by Hunton Plant Owners to recover from the gas processed approximately 35% of the propane, 80% of the butanes, and 99% of the pentanes and heavier content, it is clearly understood that such

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percentages of recovery are not assumed as an obligation by Hunton Plant Owners. With the completion of the alterations and additions to the Hunton Gasoline Plant as here outlined, it is agreed that the Hunton Plant owners shall never be required to enlarge the capacity of the plant except as provided in Section 6 of Article II of Part III of the Processing Exhibit. The Hunton Plant Owners agree to proceed forthwith with the necessary preliminary engineering for said alterations and additions and to commence actual construction thereof as soon as possible and to prosecute such construction with reasonable diligence so that the same may be completed by approximately October 1, 1949.

5. The Unit, in connection with its Pilot Gas Injection Program, has heretofore installed in the Hunton Gasoline Plant, one 600 horsepower compressor, which is owned by the Unit. The Hunton Plant Owners agree to install at the Hunton Gasoline Plant, two additional 600 horsepower compressors for the compression of gas to 500# per square inch gauge, to convert the presently installed compressor for the compression of gas to 500# per square inch gauge, and to install dehydration and other appurtenant facilities

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for the three compressors but the Unit agrees to reimburse the Hunton Plant Owners for the actual cost thereof. Such actual cost will include the cost of foundations, construction of necessary building or building extension, cooling tower or cooling tower extension, cooling coils for both water and gas, as well as the acquisition cost and installation cost of the compressors and their accessories and appurtenances, and all other costs actually incurred by the Hunton Plant Owners which are a proper direct charge to the installation of the two new compressors and the conversion of the presently installed.

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compressor in accordance with customary accounting practices. It is anticipated that the installation of the two new compressors and the conversion of the existing compressor will be performed by the same contractor under the same construction contract as the alterations and additions above provided to be made to the Hunton Gasoline Plant. The Hunton Plant Owners will cause such construction contractor to keep a separate record of charges in respect of the installation of the two new compressors, the conversion of the presently installed compressor and the installation of appurtenances and accessories thereto, and to submit to Hunton Plant Owners, after the end of each month, an itemized statement of such charges for the month. After the end of each month, Hunton Plant Owners will submit to the Unit Operator a statement of actual costs incurred by them during the month in the installation of the two new compressors and the conversion of the exisiting compres-

sor, with their appurtenances and accessories properly itemized, and the amount thereof will be reimbursed by the Unit, through the Unit operator, to the Hunton Plant Owners, within fifteen (15) days after receipt of the statement, the amount paid by the Unit Operator to be charged as unit Expense in accordance with the Unit's Plan of Unitization. The Unit shall have the right, through its authorized representatives, to examine the books and records of the construction contractor and the books and records of the Hunton Plant Owners relating to the installation of the two new compressors and the conversion of the existing compressor, for the purpose of determining the correctness of the statements submitted by the Hunton Plant Owners. Payment of any such statement shall be without prejudice to the right of the Unit to question

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the correctness thereof, provided written objection to the statement is made on behalf of the Unit within six months after completion of the installation and conversion of compressors and the installation of appurtenances and accessories thereto.

6. The 600 horsepower compressor heretofore installed by the Unit in the Hunton Gasoline Plant, and all alterations made thereto in the conversion thereof as above provided, and the two additional 600 horsepower compressors for which the Unit is to reimburse the Hunton Plant Owners, with all appurtenances and accessories to the three compressors shall be and remain the property of the Unit, but the Hunton Plant Owners shall have the right to use

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and operate all three of said compressors and their appurtenant facilities and accessories, in connection with the operation of the Hunton Gasoline Plant, in accordance with the following provisions:

(a) The Hunton Plant Owners will operate the same and keep them in repair, furnishing all necessary labor, supplies, materials, utility services, repair and replacement parts and the like.

(b) Through the Unit Operator, the Unit will pay to the Hunton Plant Owners, as compensation for the operation of said compressors, at the rate of $18.00 per rated horsepower per year, compensation at said rate to cover all operating labor, utility services, operating supplies, supervision and other operating expenses. After the end of each month, Hunton Plant Owners will invoice the Unit Operator for the amount of said operating charge for the month, computed on the basis of the rated horsepower in operation during the month; however, whenever a compressor is out of service for more than two weeks during such month, no operating charge will be made for the period it is out of service. In addition, the Unit through Unit Operator, will reimburse the

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Hunton Plant Owners for the actual cost of repair and maintenance work on said compressors and their appurtenances and accessories, such actual cost to include cost of labor, materials, parts and replacements furnished in the repair and maintenance and all other expenses actually incurred by Hunton Plant Owners which are a proper direct charge to the repair and maintenance work in conformity with customary ac-

counting practices; after the end of each month during which Hunton Plant Owners perform any such repair or maintenance work, they will submit to the Unit Operator an itemized statement of the actual cost of the work performed during the month and the amount thereof will be paid by the Unit Operator within the fifteen (15) days after receipt of such statement. All amounts paid by the Unit Operator to Hunton Plant Owners as above provided will be considered Unit Expense under the Unit's Plan of Unitization.

(c) No charge will be made by the Hunton Plant Owners for the compression and dehydration of Unit residue gas which is compressed and dehydrated by means of the facilities owned by the Unit other than the operating charge and the reimbursement for actual cost of maintenance and repair above provided for. For the purpose of determining the quantity of Unit residue gas compressed and dehydrated by means of the facilities owned by the Unit, the total quantity of compressed and dehydrated Unit residue gas delivered by the Hunton Plant Owners during a month will be allocated between the compression and dehydration facilities owned by the Unit and the compression and dehydration facilities owned by the Hunton Plant Owners on the basis of the relative rated horsepower of the Unit facilities and the Hunton Plant Owners facilities in operation during the month. During any period when the Hunton Plant Owners are delivering compressed and dehydrated Unit residue gas to the Unit for gas injection purposes, the quantity of compressed and dehydrated Unit residue gas allocated to the Hunton Plant Owners facilities shall be deemed to include Unit residue gas delivered for such injection purposes, for the purpose of computing the compression and dehydration charges payable

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in respect of Unit residue gas compressed and dehydrated by means of facilities owned by the Hunton Plant Owners.

(d) The Unit assumes all risks of loss or damage to the compression and dehydration facilities owned by the Unit which may be caused by fire, explosion, action of the elements, or other casualties, and all such loss or damage will be borne by the Unit. Hunton Plant Owners will operate the compression and dehydration facilities owned by the Unit with the same degree of care and with the same precautions as in the operation of their own compression and dehydration facilities and the Hunton Plant Owners shall not be held liable for loss or damage of any kind occurring to the Unit's facilities from any cause other than failure of the Hunton Plant Owners to use the same degree of care and the same precautions in the operation of the Unit's facilities as those used in the operation of the Hunton Plant Owners facilities.

(e) Whenever the quantity of Unit gas deliverable to the Hunton Plant Owners for processing declines to such extent that use of a compressor owned by the Unit may be permanently discontinued, the Unit will have the right to remove for salvage, or other disposition, the compressor, use of which is no longer required, together with its appurtenances and accessories, excepting, however, appurtenances and accessories required in the operation of other compression facilities. Whenever the use of a 500# service compressor, or compressors, installed at the Hunton Gasoline Plant may temporarily be dispensed with, one or more of the Unit's compressors will first be shut down, before any of the

compressors owned by the Hunton Plant Owners is shut down.

(f) Hunton Plant Owners shall be responsible for and shall indemnify the Unit against, any and all claims, demands and causes of action of any nature for injury to, or death of, persons or for loss of or damage to property occasioned by the construction, installation, operation, maintenance, or repair of the compression and dehydration facilities owned by the Unit. Any and all employees of the Hunton Plant Owners who may

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be engaged in the construction, installation, operation, maintenance, or repair of the compression and dehydration facilities owned by the Unit shall be deemed the employees of the Hunton Plant Owners, who will be obligated to comply with the Workmen's Compensation Laws of Oklahoma, Federal and State Wage and Hour Laws and Federal and State Social Security Laws, and all valid regulations issued under any such laws, insofar as such laws or regulations relate to said employees.

ARTICLE IV — GAS INJECTION

7. If the Unit, in accordance with its Plan of Unitization, should adopt a program for the injection of gas into the Unit area, all of the Unit residue gas required for such gas injection purposes shall be delivered to the Unit by the Hunton Plant Owners, at a pressure of 500# per square inch gauge, at or in the immediate vicinity of the Hunton Gasoline Plant, up to, but not in excess of the residue pro-

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duced from the quantity of Unit gas available at the plant for processing, the capacity of the plant processing equipment or the capacity of the compression facilities, including those of the Unit, as well as those of the Hunton Plant Owners. The Unit shall not be obligated to take from the Edmond Plant Owners any of the Unit residue gas required for such gas injection purposes, but the Unit will have the right to require the Edmond Plant Owners to deliver Unit residue gas for such gas injection purposes whenever the Unit residue gas deliverable by the Hunton Plant Owners is insufficient.

ARTICLE V — PRODUCTION, PROCESSING AND GATHERING OF UNIT GAS

8. After consolidation, extension and enlargement of the gas gathering systems of the Edmond Plant Owners and the Hunton Plant Owners, respectively, have been completed in accordance with Section 3 of Article

II of this Agreement, both the Edmond Plant Owners and the Hunton Plant Owners will have complied with all of their obligations under the Processing Exhibit of the Plan of Unitization, as well as under this Agreement, concerning the installation of facilities for the gathering of Unit gas. Neither the Edmond Plant Owners, nor the Hunton Plant Owners will be obligated at any time to gather or process gas produced in Township 12 or in Township 15 of the Unit area, and such Unit gas as may hereafter be produced in said Township 12 or in said Township 15 shall not be

subject in any manner to the provisions of the Processing Exhibit or to the provisions of this Agreement.

9. After the consolidation, enlargement and extension of said gas gathering systems in accordance with Article II of this Agreement have been completed, the quantity of Unit gas produced at any time from Townships 13 and 14 of the Unit area will not exceed 106% of the combined utilization capacities of the Edmond Gasoline Plant and the Hunton Gasoline Plant. For this purpose the "Utilization Capacity" of each said Gasoline Plants will be that quantity of Unit gas which, after being gathered and processed in the Plant, will yield a quantity of Unit residue gas equal to the sum of (a) the quantity of Unit residue gas from such Plant then being taken by the lessees or other persons entitled to receive the same, or by purchasers from such lessees or other persons and, (b) the quantity of Unit residue gas from such Plant then being taken by the Unit for use in its field operations and (c) the quantity of Unit residue gas from such Plant then being delivered to the Unit for gas injection purposes.

There shall be delivered to Edmond Gasoline Plant for pro-

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cessing, in each month, a quantity of Unit gas equal to the lesser of (a) the Utilization Capacity of the plant facilities during such month, or (b) two-thirds (2/3) of the Unit gas produced and saved during such month. However, if at any time the Utilization Capacity of the plant facilities should exceed two-thirds (2/3) of the Unit gas then being

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produced and saved, and if the Utilization Capacity of Hunton Gasoline Plant be less than one-third (1/3) of the Unit gas then being produced and saved, then, during the time such condition continues, there shall be delivered to Edmond Gasoline Plant for processing a daily quantity of Unit gas equal to the lesser of (a) the Utilization Capacity of the plant facilities, or (b) the total quantity of Unit gas then being produced and saved, minus the Utilization Capacity of Hunton Gasoline Plant.

There shall be delivered to Hunton Gasoline Plant for processing, in each month, a quantity of Unit gas equal to the lesser of (a) the Utilization Capacity of the plant facilities during such month, or (b) one-third (1/3) of the Unit gas produced and saved during such month. However, if at any time the Utilization Capacity of the plant facilities should exceed one-third (1/3) of the Unit gas then being produced and saved, and if the Utilization Capacity of Edmond Gasoline Plant be less than two-thirds (2/3) of the Unit gas then being produced and saved, then, during the time such condition continues, there shall be delivered to Hunton Gasoline Plant for processing a daily quantity of Unit gas equal to the lesser of (a) the Utilization Capacity of the Plant facilities, or (b) the total quantity of Unit gas then being produced and saved, minus the utilization capacity of Edmond Gasoline Plant.

10. If the Operating Committee of the Unit should decide, at

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any time either:

(a) to relocate any tank battery, or tank batteries, now installed within Township 13 or Township 14 of the Unit area, shown on said Exhibit "B"; or

(b) to produce from any portion of the Unit area within Township 13 or Township 14, a quantity of Unit gas substantially in excess of the capacity of the gas gathering facilities shown on said Exhibit "B" for service to such portion of the Unit area,

the Operating Committee shall cause written notice of such decision to be given to the Edmond Plant Owners and to the Hunton Plant Owners. If the Operating Committee decision is to relocate a tank battery, or tank batteries, the notice will identify the battery, or batteries, to be relocated and will show the new location or locations thereof; if the decision is to produce a quantity of Unit gas substantially in excess of the capacity of the gas gathering facilities then installed, the notice shall show the portion of the Unit area from which the excess quantity is to be produced and will state the estimated quantity to be produced therefrom and the pressures at which it will be produced, such estimated quantity and pressure to be shown separately for each year of the next five years. As soon as reasonably possible after receipt of any such notice, the Edmond Plant Owners and the Hunton Plant Owners will be obligated to make such relocation and/or enlargements in the gas gathering facilities as may be necessary to gather Unit gas from the relocated tank battery, or tank batteries, or to gather the excess quantity of Unit gas shown in the notice, as the case may be. However, the intangible cost of relocating the gas gathering facilities, or the intangible cost of enlarging the gas gathering facilities, as the case may be, pursuant to

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the notice caused to be given by the Operating Committee, will be borne by the Unit and reimbursed to the Edmond Plant Owners and the Hunton Plant Owners by the Unit Operator, who will charge the amount thereof as Unit Expense.

11. Promptly after the execution of this Agreement, the Edmond Plant Owners and the Hunton Plant Owners will proceed with such installations in their respective Gasoline Plants as may be necessary to eliminate the use of Unit residue gas from their respective Plants in the operation of their respective Plants for any purpose other than use as fuel, it being intended that the Edmond Plant Owners, in respect of the Edmond Gasoline Plant, and the Hunton Plant Owners, in respect of the Hunton Plant shall be permitted to use such quantity of residue gas from Unit gas as may reasonably be required for use as fuel in Plant operations, but shall not be entitled to use Unit residue gas for any other purpose in Plant Operations.

ARTICLE VI — GENERAL PROVISION

12. The Processing Exhibit, as amended by this Agreement, shall remain in force according to its terms in all respects, except as otherwise provided in this Agreement, but any and all provisions of the Processing Exhibit which are contrary to, or inconsistent with, any provision of this Agreement shall be deemed superseded by the applicable provision, or provisions, of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto through their respective officers on the day and year first above written.

* * *

[7691]

GAS PURCHASE CONTRACT

THIS CONTRACT made and entered into this 12th day of September, 1949, by and between CITIES SERVICE GAS COMPANY, a Delaware corporation, having offices in Oklahoma City, Oklahoma, hereinafter called "Buyer", and Phillips Petroleum Company, a Delaware corporation, having offices in Bartlesville, Oklahoma, hereinafter called "Seller", WITNESSETH, That:

WHEREAS, Seller represents that Seller is a lessee of the West Edmond Hunton Lime Unit created pursuant to Order No. 22,247 of the Corporation Commission of Oklahoma, and that Seller, under the Plan of Unitization of said Unit, is entitled to receive in kind and sell or otherwise

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dispose of Nineteen and per cent (19.63673174%) of any and all gas and residue gas provided in the Plan of Unitization of said Unit to be delivered in kind as Unit Production; and

WHEREAS, Buyer is engaged in the business of selling natural gas at wholesale to chosen customers and to distributors thereof and is desirous of obtaining an additional supply of merchantable gas to meet its requirements:

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, Seller and Buyer have agreed with each other as follows:

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II.

SALE AND DELIVERY

2.1 Subject to the terms and conditions hereof, Seller agrees to sell and deliver, or cause to be delivered, to Buyer, and Buyer agrees to purchase and receive, commencing with the date of first delivery hereinafter specified and continuing during the life of this contract, Seller's Proportionate Share of the Contract Gas, provided, however, that:

A. Buyer shall not be obligated to purchase, during any fiscal month, a quantity of Contract Gas exceeding in the aggregate an average of 25,000,000 cubic feet daily, averaged over the fiscal month, said quantity being hereinafter referred to as the "minimum quantity", however, Buyer shall not be obligated to purchase and receive at any time more than

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fifteen million cubic feet of North Residue Gas daily or more than twenty million cubic feet of Hunton Residue Gas daily.

B. In the event Seller and other Unit Lessees (for any reason whatsoever other than force majeure, as hereinafter defined, or Buyer's failure to take Contract Gas available for delivery to it) should fail to deliver the minimum quantity above specified or any lesser minimum quantity then applicable under this contract, during each fiscal month for a period of three consecutive fiscal months, the minimum quantity applicable hereunder for each succeeding fiscal month shall be a

quantity equivalent to an average daily quantity during the month equal to the average daily quantity delivered by the Seller and other Unit Lessees during such three consecutive fiscal months, unless and until a low minimum quantity is established.

C. If delivery of gas hereunder commences on any date other than the first day of a fiscal month, or if this contract terminates on any date other than the last day of a fiscal month, the minimum quantity applicable for the fractional fiscal month in question shall be prorated on the basis of the minimum quantity then applicable for a full fiscal month.

2.2 During the life of this contract, after the date of first delivery herinafter specified, Buyer shall have the right, at its option, to purchase and receive, on the terms and conditions herein set forth, Seller's Proportionate Share of any and all Contract Gas in excess of the minimum quantity above specified to be purchased and received by Buyer, during any time or times when the quantity of Contract Gas available for delivery to the Buyer and deliverable by means of then installed facilities, is in excess of the minimum quantity then applicable hereunder.

2.3 To the extent that Seller may be able to control, or participate in the control of, the rates of delivery of the Contract Gas, Seller agrees to deliver or cause to be delivered to Buyer the maximum quantities of Contract Gas reasonably possible, whenever necessary to assist the Buyer in meeting the fluctuating requirements of its business.

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2.4 The point of delivery for Hunton Residue Gas deliverable hereunder shall be the North fence line of the Hunton Gasoline Plant site, and the point of delivery for North Residue Gas deliverable hereunder shall be the East fence line of the North Plant site.

* * *

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Exhibit No. 53

[*Note: This exhibit was rejected by the Examiner at record 5765 and was not received in evidence. An offer of proof was made on page 5765 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.*]

Form No. 40 100M 100P 8-44 A 22664

NOTEGRAM

Memo To	Allen B. Hiatt	Date 7/7	1948
From	R. B. Stewart	To Return Cross Out Your Name And The Word "From"	

We get the following results comparing the map in the M.-W. contract with the new photostat.

Net add'l acreage omitted from original	28,000*
Add'l acreage acquired from C. S. oil	14,000
Add'l acreage (misc.) acquired since contract	4,900
Total add'l acreage represented by photostat	46,900

*This net acreage was included in revised maps prepared 8-21-46 but to my knowledge the M-W people never received a copy of such revision hence their count checks the above count approximately. See Mr. Bunn & Kirk re. this.

Put It In Writing Written Messages Save Time Prevent 5-Annoying Interruptions And Errors

[7799]

ADD'L ACREAGE SHOWN BY NEW MICH-WISC EXHIBIT "A"

Net Acreage Omitted from Original	27,422	
Acreage Acquired from C. S. Oil	14,578	gross
Misc Acreage Acquired Since Contract	4,860	
Net Add'l Acreage Represented by new Exhibit	46,860	gross
We are promising add'l from PEPL. block	7,000	approx.
Probable total addition to original Exhibit "A"	53,860	

320	28,000
3	14,000
960	42,000
640	2,820
1,600	44,820
480	7,000
2,080	51,820
4,900	
2,080	
2,820	

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Exhibit No. 54

[Note: Cover page and title page omitted]

G-1148—PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
SUMMARY
1950

Particulars	Volume Mcf @ 14.65 p.s.i.a.				AMOUNT		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per MCF Total Sales	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales from Oil Leases	9,256,179	29,754,419	39,010,598	.0347	374,480.02	979,741.57	1,354,221.59
Gas Sales from Casinghead Royalties	7,846	341,049	348,895	.0394	374.93	13,379.37	13,754.30
Total	9,264,025	30,095,468	39,359,493	.0348	374,854.95	993,120.94	1,367,975.89
Gas Sales from Dry Gas Royalties	569,243	1,287,019	1,856,262	.0435	15,303.79	65,423.01	80,726.80
Gas Sales from Dry Gas Leases	17,788,241	4,252,033	22,040,274	.0427	716,837.58	225,272.01	942,109.59
Gas Sales from Cycling Operations	1,461,385	15,117	1,476,502	.0565	81,916.62	1,522.01	83,438.63
Gas Sales from Distributing Systems	92,772	55,020,185	55,112,957	.0528	7,492.12	2,903,054.78	2,910,546.90
Gas Sales by Independent Natural Gas Co.	2,714,407	....	2,714,407	.0490	133,078.69	....	133,078.69
Sales of Residue Gas	292,610,915	84,528,586	377,139,501	.0538	16,033,809.55	4,240,645.81	20,274,455.36
Total Outside Sales	324,500,988	175,198,408	499,699,396	.0516	17,363,293.30	8,429,038.56	25,792,331.86

Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
SALES OF RESIDUE GAS
YEAR 1950

[7803]

Sheet 1

7803

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Gasoline Plant	Volume in Mcf @ 14.65 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Canadian		3,835,336	3,835,336	$ .0501		$ 192,059.31	$ 192,059.31
Crane							
El Paso Natural Gas Company	2,729,753		2,729,753	.0469	128,022.34		128,022.34
Other		28,872	28,872	.0434		1,253.14	1,253.14
Total Crane	2,729,753	28,872	2,758,625	.0469	128,022.34	1,253.14	129,275.48
Edmond (50% Interest)							
Cities Service Gas Company	16,735,038		16,735,038	.0553	925,900.88		925,900.88
Other		14,860	14,860	.0454		674.83	674.83
Total Edmond	16,735,038	14,860	16,749,898	.0553	925,900.88	674.83	926,575.71
Eunice							
El Paso Natural Gas Company	28,176,810		28,176,810	.0381	1,073,517.46		1,073,517.46
Southern California Gas Company					25,509.89		25,509.89
Southern Counties Gas Co. of California					8,368.83		8,368.83
Other		11,663,129	11,663,129	.0497		579,750.70	579,750.70
Total Eunice	28,176,810	11,663,129	39,839,939	.0423	1,107,396.18	579,750.70	1,687,146.88
Fullerton (50% Interest)							
El Paso Natural Gas Company	7,171,117		7,171,117	.0407	291,832.93		291,832.93
Southern California Gas Company					11,741.63		11,741.63
Southern Counties Gas Co. of California					3,876.47		3,876.47
Other		101,382	101,382	.0406		4,119.69	4,119.69
Total Fullerton	7,171,117	101,382	7,272,499	.0428	307,451.03	4,119.69	311,570.72
Goldsmith							
El Paso Natural Gas Company	26,289,471		26,289,471	.0492	1,293,574.13		1,293,574.13
Southern California Gas Company					22.24		22.24
Southern Counties Gas Co. of California					66.72		66.72
Other		202,592	202,592	.0740		14,982.64	14,982.64
Total Goldsmith	26,289,471	202,592	26,492,063	$ .0494	$ 1,293,663.09	$ 14,982.64	$ 1,308,645.73

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
SALES OF RESIDUE GAS
YEAR 1950

[7804]
Sheet 2

Gasoline Plant	Volume in Mcf @ 14.65 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Hansford	30,924,433		30,924,433	$ .0403	$ 1,246,785.64	$	$ 1,246,785.64
Panhandle Eastern Pipe Line Company		17,847	17,847	.0600		1,070.82	1,070.82
Other							
Total Hansford	30,924,433	17,847	30,942,280	.0403	1,246,785.64	1,070.82	1,247,856.46
Hobbs	2,564,868		2,564,868	.0380	97,375.41		97,375.41
El Paso Natural Gas Company		5,872	5,872	.0747		438.79	438.79
Other							
Total Hobbs	2,564,868	5,872	2,570,740	.0380	97,375.41	438.79	97,814.20
Hunton Station (37.60116160% Int.)	1,232,060		1,232,060	.0682	83,989.27		83,989.27
Cities Service Gas Company		4,398 084	4,398,084	.0530		233,151.76	233,151.76
Other							
Total Hunton Station	1,232,060	4,398,084	5,630,144	.0563	83,989.27	233,151.76	317,141.03
Judkins		3,000,296	3,000,296	.0462		138,512.34	138,512.34
Keystone (9.4486% Int.)	1,173,321		1,173,321	.0563	66,024.35		66,024.35
El Paso Natural Gas Company		7,446	7,446	.0323		240.38	240.38
Other							
Total Keystone	1,173,321	7,446	1,180,767	.0561	66,024.35	240.38	66,264.73
Lee	3,489,545		3,489,545	.0491	171,440.15		171,440.15
El Paso Natural Gas Company		20,836	20,836	.0425		884.85	884.85
Other							
Total Lee	3,489,545	20,836	3,510,381	.0491	171,440.15	884.85	172,325.00

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
SALES OF RESIDUE GAS
YEAR 1950

[7805]

Sheet 3

7805

Gasoline Plant	Volume in Mcf @ 14.65 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Mankins	34		34	$ .0268	$ .91	$	$ .91
Lone Star Gas Company	135,525		135,525	.0477	6,469.58		6,469.58
United Gas Pipe Line Company		37,542	37,542	.0250		938.40	938.40
Other							
Total Mankins	135,559	37,542	173,101	.0428	6,470.49	938.40	7,408.89
Seminole	6,507,328		6,507,328	.0472	307,198.55		307,198.55
El Paso Natural Gas Company					2,312.82		2,312.82
Southern California Gas Co.					920.85		920.85
Southern Counties Gas Co. of California		3,311	3,311	.0468		154.90	154.90
Other							
Total Seminole	6,507,328	3,311	6,510,639	.0477	310,432.22	154.90	310,587.12
Sherman	77,153,738		77,153,738	.0817	6,304,885.48		6,304,885.48
Michigan Wisconsin Pipe Line Co.		112,247	112,247	.0616		6,915.26	6,915.26
Other							
Total Sherman	77,153,738	112,247	77,265,985	.0817	6,304,885.48	6,915.26	6,311,800.74
Wewoka		427,058	427,058	.0490		20,943.87	20,943.87
Billings (25%)			....	....		1,023.95	1,023.95
Denoya		5,800	5,800	.0503		291.54	291.54
Eliasville		89	89	.0492		4.38	4.38
Elk Basin (.0068060%)		1,585	1,585	.0571		90.54	90.54
Ibex Gas Treater		314	314	.1811		56.86	56.86
Lodi		2,336	2,336	.0256		59.72	59.72
Lodi Booster Station							
Arkansas Louisiana Gas Co.	291,024		291,024	$ .0381	$ 11,079.23	$	$ 11,079.23

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
SALES OF RESIDUE GAS
YEAR 1950

[7806]
Sheet 4

Gasoline Plant	Volume in Mcf @ 14.65 p.s.i.a.				Amount		
	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Lucien (8/108 Int.)		....	....	$	$	$ 240.79	$ 240.79
Reserve		360	360	.0500		18.00	18.00
Borger Residue System							
El Paso Natural Gas Co.	47,831,832		47,831,832	.0505	2,413,176.13		2,413,176.13
Panhandle Eastern Pipe Line Co.	20,779,615		20,779,615	.0403	838,191.45		838,191.45
Southwestern Public Service Co.	7,150,320		7,150,320	.0506	361,968.43		361,968.43
Texoma Natural Gas Company	595,579		595,579	.0902	53,701.21		53,701.21
Other		47,560,516	47,560,516	.0471		2,237,755.49	
Total Borger Residue System	76,357,346	47,560,516	123,917,862	.0477	3,667,037.22	2,237,755.49	5,904,792.71
Capitol Residue System		446,205	446,205	.0487		21,737.26	21,737.26
Pampa Residue System							
Independent Natural Gas Company	10,965,671		10,965,671	.0245	268,637.24		268,637.24
Southwestern Public Service Company	713,833		713,833	.0521	37,219.33		37,219.33
Other		12,634,671	12,634,671	.0620		783,275.60	783,275.60
Total Pampa Residue System	11,679,504	12,634,671	24,314,175	.0448	305,856.57	783,275.60	1,089,132.17
TOTAL SALES OF RESIDUE GAS	292,610,915	84,528,586	377,139,501	$ .0538	$16,033,809.55	$ 4,240,645.81	$20,274,455.36

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
SALES FROM CASINGHEAD ROYALTIES
YEAR 1950

Area or District	Volume in Mcf @ 14.65 p.s.i.a.				Amount		
	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Oklahoma							
Consolidated Gas Utilities Corp.	---	---	---	$ ---	$ (.02)	$	$ (.02)
Other		106,671	106,671	.0492		5,248.62	5,248.62
Total Oklahoma	---	106,671	106,671	.0492	(.02)	5,248.62	5,248.60
Texas							
Lone Star Gas Company	7,846		7,846	.0478	374.95		374.95
Other		167,300	167,300	.0385		6,435.91	6,435.91
Total Texas	7,846	167,300	175,146	.0389	374.95	6,435.91	6,810.86
Kansas		3,588	3,588	.0285		101.66	101.66
Arkansas		50,268	50,268	.0742		373.12	373.12
Louisiana		12,841	12,841	.0941		1,207.73	1,207.73
New Mexico		381	381	.0324		12.33	12.33
Total Sales From Casinghead Royalties	7,846	341,049	348,895	$ .0394	$ 374.93	$ 13,379.37	$ 13,754.30

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
SALES FROM DRY GAS ROYALTIES
YEAR 1950

[7808]
Sheet 6

Area or District	Volume in Mcf @ 14.65 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Oklahoma							
Consolidated Gas Utilities Corp.	16,744		16,744	$ .0447	$ 747.79	$	$ 747.79
Lone Star Gas Company	3,815		3,815	.0561	213.87		213.87
Other		25,280	25,280	.0507		1,282.63	1,282.63
Total Oklahoma	20,559	25,280	45,839	.0490	961.66	1,282.63	2,244.29
Texas							
Lone Star Gas Company	491,385		491,385	.0231	11,348.79		11,348.79
Texoma Natural Gas Company	48,539		48,539	.0512	2,486.40		2,486.40
United Gas Pipe Line Company	8,178		8,178	.0565	461.81		461.81
Other		1,028,019	1,028,019	.0494		50,807.62	50,807.62
Total Texas	548,102	1,028,019	1,576,121	.0413	14,297.00	50,807.62	65,104.62
Kansas							
Union Gas System	582		582	.0775	45.13		45.13
Louisiana		16,497	16,497	.0718		1,185.20	1,185.20
Montana		217,223	217,223	.0559		12,147.56	12,147.56
Total Sales From Dry Gas Royalties	569,243	1,287,019	1,856,262	$ .0435	$ 15,303.79	$ 65,423.01	$ 80,726.80

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
GAS SALES FROM DISTRIBUTING SYSTEM
YEAR 1950

Area or District	Volume in Mcf @ 14.65 p.s.i.a.				Amount		
	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Phillips Natural Gas Company							
Burbank		37,854	37,854	$ .3126	$	$ 11,834.10	$ 11,834.10
Oklahoma City		3,025,457	3,025,457	.0759		229,541.87	229,541.87
Blue Lake Gas System		128,769	128,769	.1700		21,890.73	21,890.73
Texas Miscellaneous							
Southern Union Gas Company	63,470		63,470	.0877	5,565.81		5,565.81
Southwestern Public Service Co.	29,302		29,302	.0657	1,926.31		1,926.31
Other		90,448	90,448	.0791		7,156.78	7,156.78
Total Texas Miscellaneous	92,772	90,448	183,220	.0800	7,492.12	7,156.78	14,648.90
Total Phillips Natural Gas Company	92,772	3,282,528	3,375,300	.0823	7,492.12	270,423.48	277,915.60
Russell		463,478	463,478	.0231		107,140.88	107,140.88
Cactus		4,783	4,783	.0655		313.21	313.21
Chocolate Bayou		51,269,396	51,269,396	.0493		2,525,177.21	2,525,177.21
Total Sales From Distributing Systems	92,272	55,020,185	55,112,957	$ .0528	$ 7,492.12	$ 2,903,054.78	$ 2,910,546.90

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
GAS SALES BY INDEPENDENT NATURAL GAS COMPANY
YEAR 1950

[7810]
Sheet 8

1061

Area or District	Volume in Mcf @ 14.65 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Grayco Station							
Northern Natural Gas Company	2,714,407		2,714,407	$ .0490	$ 133,078.69		$ 133,078.69

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
GAS SALES FROM CYCLING OPERATIONS
YEAR 1950

[7811]
Sheet 9

Area or District	Volume in Mcf @ 14.65 p.s.i.a.				Amount		
	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Erath		15,117	15,117	$ .1006	$	$ 1,522.01	$ 1,522.01
Hico-Knowles							
Texas Eastern Transmission	1,450,036		1,450,036	.0562	81,553.34		81,553.34
Burnell—North Pettus							
United Gas Pipe Line Company	11,349		11,349	.0320	363.28		363.28
Total Sales From Cycling Operations	1,461,385	15,117	1,476,502	$ .0565	$ 81,916.62	$ 1,522.01	$ 83,438.63

Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
GAS SALES FROM DRY GAS LEASES
1950

[7812]
Sheet 1 of 2

District or Area	Volume in Mcf @ 14.65 p.s.i.a.				Amount		
	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Chase Kansas—Phillips Operated	128,638		128,638	$ .0357	$ 4,596.27	$	$ 4,596.27
Kansas Nebraska Natural Gas Co.	21,157		21,157	.0857	1,812.54		1,812.54
Total Phillips Operated	149,795		149,795	.0428	6,408.81		6,408.81
Guymon Kansas—Partner Operated							
Colorado Interstate Gas Company	11,185		11,185	.0829	926.91		926.91
East Texas—Partner Operated							
Arkansas Louisiana Gas Company	30,125		30,125	.0553	1,664.43		1,664.43
Other		841,191	841,191	.1033		86,936.14	86,936.14
Total Partner Operated	30,125	841,191	871,316	.1017	1,664.43	86,936.14	88,600.57
East Texas—Phillips Operated							
United Gas Pipe Line Company	3,008,656		3,008,656	.0743	223,679.62		223,679.62
Other		305,413	305,413	.0814		24,873.15	24,873.15
Total Phillips Operated	3,008,656	305,413	3,314,069	.0750	223,679.62	24,873.15	248,552.77
Beaumont—Partner Operated		263,845	263,845	.0301		7,954.72	7,954.72
Corpus Christi—Partner Operated		229,856	229,856	.0351		8,067.81	8,067.81
Corpus Christi—Phillips Operated							
United Gas Pipe Line Company	28,716		28,716	.0266	763.36		763.36
Other		42,067	42,067	.0266		1,121.07	1,121.07
Total Phillips Operated	28,716	42,067	70,783	.0266	763.36	1,121.07	1,884.43
Guymon Texas—Phillips Operated		80,742	80,742	.0602		4,859.05	4,859.05
Panhandle—Partner Operated							
Northern Natural Gas Company	43,744		43,744	.0442	1,932.21		1,932.21
Other		255,931	255,931	.0279		7,134.42	7,134.42
Total Partner Operated	43,744	255,931	299,675	.0303	1,932.21	7,134.42	9,066.63
Panhandle—Phillips Operated							
Panhandle Eastern Pipe Line Co.	12,503,205		12,503,205	.0294	367,094.11		367,094.11
Other		1,463,659	1,463,659	.0320		46,880.77	46,880.77
Total Phillips Operated	12,503,205	1,463,659	13,966,864	.0296	367,094.11	46,880.77	413,974.88
Ardmore—Partner Operated		5,891	5,891	.0447		263.14	263.14

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
GAS SALES FROM DRY GAS LEASES (Con't)
1950

[7813]
Sheet 2 of 2

District or Area	Volume in Mcf @ 14.65 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Ardmore—Phillips Operated	1,934,935		1,934,935	$ .0524	$ 101,478.17	$	$ 101,478.17
Consolidated Gas Utilities Corp.	28,712		28,712	.0514	1,475.15		1,475.15
Lone Star Gas Company		347,365	347,365	.0536		18,617.04	18,617.04
Other							
Total Phillips Operated	1,963,647	347,365	2,311,012	.0526	102,953.32	18,617.04	121,570.36
Guymon-Partner Operated	49,168		49,168	.0232	11,414.81		11,414.81
Southwestern Public Service Co.						142.34	142.34
Other							
Total Partner Operated	49,168		49,168	.0235	11,414.81	142.34	11,557.15
Oklahoma City—Partner Operated		47,932	47,932	.0457		2,190.30	2,190.30
Seminole—Phillips Operated		368,141	368,141	.0441		16,232.06	16,232.06
Total Sales from Dry Gas Leases	17,788,241	4,252,033	22,040,274	$ .0427	$ 716,837.58	$ 225,272.01	$ 942,109.59

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
GAS SALES FROM OIL LEASES
1950

[7814]
Sheet 1 of 4

District or Area	Volume in Mcf @ 14.65 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Kentucky—Partner Operated		9,283	9,283	$ .0751	$	$ 697.44	$ 697.44
Mississippi—Phillips Operated		2,208	2,208	.0438		96.80	96.80
Cut Bank Montana—Phillips Operated		16,118	16,118	.0488		785.82	785.82
Rangely Colorado—Partner Operated		5,260	5,260	.0231		121.37	121.37
Hobbs New Mexico—Partner Operated							
El Paso Natural Gas Company	33,214		33,214	.0633	2,101.52		2,101.52
Other		223,321	223,321	.0293		6,533.24	6,533.24
Total Partner Operated	33,214	223,321	256,535	.0337	2,101.52	6,533.24	8,634.76
Hobbs New Mexico—Phillips Operated							
El Paso Natural Gas Company	166,854		166,854	.0599	10,002.46		10,002.46
Other		253,529	253,529	.0242		6,124.69	6,124.69
Total Phillips Operated	166,854	253,529	420,383	.0384	10,002.46	6,124.69	16,127.15
Beaumont S. Louisiana—Partner Op.		19,159	19,159	.0368		705.11	705.11
Beaumont S. Louisiana—Phillips Op.							
United Gas Pipe Line Company	195,239		195,239	.0517	10,095.81		10,095.81
Other		549,966	549,966	.0585		32,168.59	32,168.59
Total Phillips Operated	195,239	549,966	745,205	.0567	10,095.81	32,168.59	42,264.40
E. Texas N. Louisiana—Partner Operated							
Arkansas Louisiana Gas Company	63,803		63,803	.0332	2,120.54		2,120.54
E. Texas N. Louisiana—Phillips Operated							
Arkansas Louisiana Gas Company	1,591,679		1,591,679	.0345	54,842.53		54,842.53
Southern Natural Gas Company	987,585		987,585	.0617	60,931.66		60,931.66
Other		32,767	32,767	.0538		1,763.74	1,763.74
Total Phillips Operated	2,579,264	32,767	2,612,031	.0450	115,774.19	1,763.74	117,537.93
Minden N. Louisiana—Partner Operated							
Arkansas Louisiana Gas Company	68,187		68,187	.0732	4,989.11		4,989.11
United Gas Pipe Line Company	117,629		117,629	.0559	6,579.02		6,579.02
Other		6,787	6,787	2.4049		16,321.96	16,321.96
Total Partner Operated	185,816	6,787	192,603	.1448	11,568.13	16,321.96	27,890.09

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
GAS SALES FROM OIL LEASES
1950

[7815]

Sheet 2 of 4

District or Area	Volume in Mcf @ 14.65 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Minden N. Louisiana—Phillips Operated							
Arkansas Louisiana Gas Company	339,204		339,204	$ .0353	$ 11,968.68	$	$ 11,968.68
Southern Natural Gas Company	150,433		150,433	.0536	8,056.66		8,056.66
Total Phillips Operated	489,637		489,637	.0409	20,025.34		20,025.34
Minden Shuler—Partner Operated							
Arkansas Louisiana Gas Company	476,901		476,901	.0326	15,550.55		15,550.55
Other		3,381,317	3,381,317	.0077		25,867.89	25,867.89
Total Partner Operated	476,901	3,381,317	3,858,218	.01074	15,550.55	25,867.89	41,418.44
Minden Shuler—Phillips Operated							
Arkansas Louisiana Gas Company	1,298,968		1,298,968	.0267	34,660.55		34,660.55
Other		194,546	194,546	.0086		1,679.09	1,679.09
Total Phillips Operated	1,298,968	194,546	1,493,514	.0243	34,660.55	1,679.09	36,339.64
Smackover—Phillips Operated		13,759	13,759	.0737		1,013.79	1,013.79
Chase W. Kansas—Partner Operated		9,419	9,419	.0369		347.15	347.15
Chase W. Kansas—Phillips Operated							
Kansas Power and Light Company	167,482		167,482	.0558	9,338.93		9,338.93
Other		234,440	234,440	.0219		5,131.45	5,131.45
Total Phillips Operated	167,482	234,440	401,922	.0360	9,338.93	5,131.45	14,470.38
Eastern Kansas—Partner Operated		44,170	44,170	.0361		1,596.19	1,596.19
Eastern Kansas—Phillips Operated		16,188	16,188	.0475		769.05	769.05
Minden Rodessa Texas—Partner Op.							
Arkansas Louisiana Gas Company	2,100		2,100	.1418	297.69		297.69
Other				....		76.54	76.54
Total Partner Operated	2,100		2,100	.1782	297.69	76.54	374.23
Minden Rodessa Texas—Phillips Op.		409,677	409,677	.0167		6,859.06	6,859.06
East Texas—Partner Operated		5,593	5,593	.1177		658.34	658.34
East Texas—Phillips Operated							
Lone Star Gas Company	3,219,592		3,219,592	.0381	122,579.51		122,579.51
Other		76,083	76,083	.1256		9,556.31	9,556.31
Total Phillips Operated	3,219,592	76,083	3,295,675	$ .0401	$ 122,579.51	$ 9,556.31	$ 132,135.82

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
GAS SALES FROM OIL LEASES
1950

[7816]
Sheet 3 of 4

District or Area	Volume in Mcf @ 14.65 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Beaumont—Partner Operated		3,038,370	3,038,370	$ .0309	$	$ 93,903.09	$ 93,903.09
Beaumont—Phillips Operated		221,357	221,357	.0102		2,265.45	2,265.45
Chocolate Bayou—Partner Operated		193,859	193,859	.0469		9,100.45	9,100.45
Chocolate Bayou—Phillips Operated		343	343	.0541		18.54	18.54
League City—Partner Operated		484,580	484,580	.0483		23,412.58	23,412.58
League City—Phillips Operated		974,747	974,747	.0481		45,590.33	45,590.33
Corpus Christi—Partner Operated		455,289	455,289	.0324		14,739.89	14,739.89
Corpus Christi—Phillips Operated		1,113,394	1,113,394	.0381		42,366.44	42,366.44
North Central Texas—Phillips Operated		614,953	614,953	.0293		18,014.62	18,014.62
Big Springs—Partner Operated		285,021	285,021	.0461		13,131.76	13,131.76
Big Springs—Phillips Operated		658,404	658,404	.0364		23,981.85	23,981.85
West Texas—Partner Operated		191,542	191,542	.0327		6,269.65	6,269.65
West Texas—Phillips Operated		5,416,737	5,416,737	.0432		233,927.42	233,927.42
Hobbs Texas—Partner Operated		116,558	116,558	.0328		3,825.50	3,825.50
Hobbs Texas—Phillips Operated		133,741	133,741	.0326		4,363.34	4,363.34
Panhandle—Partner Operated		138,532	138,532	.0359		4,978.95	4,978.95
Panhandle—Phillips Operated		2,510,599	2,510,599	.0352		88,473.23	88,473.23
Antioch—Phillips Operated		177,098	177,098	.0239		4,233.63	4,233.63
Ardmore—Partner Operated		1,311,942	1,311,942	.0212		27,851.22	27,851.22
Ardmore—Phillips Operated							
Consolidated Gas Utilities Corp.	24,402		24,402	.0610	1,489.72		1,489.72
Lone Star Gas Company	352,907		352,907	.0535	18,875.08		18,875.08
Other		1,987,445	1,987,445	.0356		70,808.46	70,808.46
Total Phillips Operated	377,309	1,987,445	2,364,754	.0386	20,364.80	70,808.46	91,173.26

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
GAS SALES FROM OIL LEASES
1950

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District or Area	Volume in Mcf @ 14.65 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
West Edmond—Partner Operated		1,119,303	1,119,303	$ .0346	$	$ 38,718.57	$ 38,718.57
South Burbank District							
Bartlesville—Partner Operated		----	----	----		40.50	40.50
Billings—Phillips Operated		119,590	119,590	.0323		3,863.89	3,863.89
Kay County—Phillips Operated		78,280	78,280	.0294		2,299.89	2,299.89
Lucien—Partner Operated		11,391	11,391	.0495		563.86	563.86
Pawnee—Phillips Operated		36,298	36,298	.0446		1,618.21	1,618.21
Ramsey Pool—Partner Operated		137,940	137,940	.0185		2,549.08	2,549.08
South Burbank—Phillips Operated		544,421	544,421	.0257		13,980.14	13,980.14
Oklahoma City District							
Guthrie—Partner Operated		23,527	23,527	.0454		1,067.14	1,067.14
Guthrie—Phillips Operated		239,548	239,548	.0327		7,834.39	7,834.39
Oklahoma City—Partner Operated		70,785	70,785	.0585		4,141.11	4,141.11
Seminole—Partner Operated		35,512	35,512	.0281		999.41	999.41
Seminole—Phillips Operated		644,361	644,361	.0486		31,299.18	31,299.18
North Burbank—Phillips Operated		1,165,302	1,165,302	.0177		20,636.18	20,636.18
Total Gas Sales from Oil Leases	9,256,179	29,754,419	39,010,598	$ .0347	$ 374,480.02	$ 979,741.57	$ 1,354,221.59

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Exhibit No. 55

[*Note: Cover, title page, and table of contents are omitted.*]

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

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Sheet 1 of 12

Summary	Volume in Mcf @ 14.735 p.s.i.a.			Price Per Mcf	Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales		Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales From Oil Leases	6,662,238	27,243,366	33,905,604	$ .0361	$ 252,898.14	$ 970,597.28	$ 1,223,495.42
Gas Sales From Phillips' Royalties	69,782	1,837,854	1,907,636	.0430	3,234.00	78,752.55	81,986.55
Wasatch Oil Company Sales	....	15,407	15,407	.0973	....	1,499.59	1,499.59
Wasatch Oil Refining Company Sales	....	15,407	15,407	.0973	....	1,499.61	1,499.61
Total Sales of Casing Gas and Dry Gas From Oil Leases	6,732,020	29,112,034	35,844,054	.0365	$ 256,132.14	$ 1,052,349.03	$ 1,308,481.17
Gas Sales From Dry Gas Leases	17,680,243	4,512,990	22,193,233	.0404	704,102.65	192,300.66	896,403.31
Gas Sales From Cycling Operations	340,309	11,228	351,537	.0601	19,996.92	1,122.81	21,119.73
Gas Sales From Distributing Systems	43,246	35,180,322	35,223,568	.0565	3,518.50	1,985,346.85	1,988,865.35
Gas Sales by Independent Natural Gas Co.	12,759,180	1,003,622	13,762,802	.0541	655,744.90	89,211.39	744,956.29
Sales of Residue Gas	183,326,581	125,572,022	308,898,603	.0499	8,781,505.43	6,647,710.72	15,429,216.15
Total Outside Sales	220,881,579	195,392,218	416,273,797	.0490	$10,421,000.54	$ 9,968,041.46	$20,389,042.00

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

Area or District	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales From Oil Leases							
Kentucky—Partner Operated	....	9,280	9,280	$ .0753	$	$ 698.48	$ 698.48
Mississippi—Phillips Operated	....	3,658	3,658	.0496	....	181.28	181.28
Rangely, Colorado—Partner Operated	....	....	....	....	....	30.64	30.64
Hobbs—New Mexico—Partner Operated							
El Paso Natural Gas Company	73,630	....	73,630	.0297	2,187.97	....	2,187.97
Other	....	116,124	116,124	.0371	....	4,304.58	4,304.58
Total Partner Operated	73,630	116,124	189,754	.0342	2,187.97	4,304.58	6,492.55
Hobbs—New Mexico—Phillips Operated							
El Paso Natural Gas Company	190,341	....	190,341	.0430	8,189.29	....	8,189.29
Other	....	347,462	347,462	.0240	....	8,323.66	8,323.66
Total Phillips Operated	190,341	347,462	537,803	.0307	8,189.29	8,323.66	16,512.95
Beaumont, La.—Partner Operated	....	353	353	.0295	....	10.43	10.43
Beaumont, La.—Phillips Operated							
Interstate Natural Gas Company	135,025	....	135,025	.0426	5,756.35	....	5,756.35
Other	....	52,738	52,738	.0445	....	2,348.41	2,348.41
Total Phillips Operated	135,025	52,738	187,763	.0432	5,756.35	2,348.41	8,104.76
Minden, North La.—Partner Operated							
Arkansas Louisiana Gas Co.	83,178	....	83,178	.0414	3,443.32	....	3,443.32
Other	....	1,465,368	1,465,368	.0966	....	141,524.21	141,524.21
Total Partner Operated	83,178	1,465,368	1,548,546	.0936	3,443.32	141,524.21	144,967.53

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PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

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Area or District	Volume in Mcf @ 14.735 p.s.i.a. Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Amount Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales From Oil Leases (continued)							
Minden North La.–Phillips Operated							
Arkansas Louisiana Gas Co.	1,812,188	....	1,812,188	$ .0355	$ 64,257.34	$	$ 64,257.34
Southern Natural Gas Co.	586,212	....	586,212	.0514	30,112.93	....	30,112.93
Other	....	2,885	2,885	.0353	....	101.83	101.83
Total Phillips Operated	2,398,400	2,885	2,401,285	.0393	94,370.27	101.83	94,472.10
Minden Shuler–Partner Operated							
Arkansas Louisiana Gas Company	372,196	....	372,196	.0358	13,316.76	....	13,316.76
Other	....	3,291,464	3,291,464	.0115	....	37,865.76	37,865.76
Total Partner Operated	372,196	3,291,464	3,663,660	.0140	13,316.76	37,865.76	51,182.52
Minden Shuler–Phillips Operated							
Arkansas Louisiana Gas Company	628,675	....	628,675	.0279	17,527.70	....	17,527.70
Other	....	406,131	406,131	.0104	....	4,236.82	4,236.82
Total Phillips Operated	628,675	406,131	1,034,806	.0210	17,527.70	4,236.82	21,764.52
Smackover–Phillips Operated	....	11,976	11,976	.0870	....	1,041.59	1,041.59
Chase Kansas–Partner Operated	....	1,736	1,736	.0439	....	76.25	76.25
Chase Kansas–Phillips Operated							
Kansas Power & Light Company	179,977	....	179,977	.0540	9,710.44	....	9,710.44
Other	....	585,306	585,306	.0217	....	12,719.03	12,719.03
Total Phillips Operated	179,977	585,306	765,283	.0293	9,710.44	12,719.03	22,429.47
Eastern Kansas–Partner Operated	....	52,811	52,811	.0502	....	2,652.32	2,652.32
Minden Rodessa Texas–Partner Operated	....	44,723	44,723	.0105	....	470.51	470.51
Minden Rodessa Texas–Phillips Operated	....	175,958	175,958	.0095	....	1,669.20	1,669.20
East Texas–Partner Operated	....	5,462	5,462	.1739	....	949.59	949.59
East Texas–Phillips Operated							
Lone Star Gas Company	2,264,789	....	2,264,789	.0355	80,303.46	....	80,303.46
Other	....	89,180	89,180	.1409	....	12,563.20	12,563.20
Total Phillips Operated	2,264,789	89,180	2,353,969	.0393	$ 80,303.46	$ 12,563.20	$ 92,866.66

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

Area or District	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales From Oil Leases (continued)							
Beaumont—Partner Operated	....	2,714,086	2,714,086	$ .0311	....	$ 84,457.26	$ 84,457.26
Beaumont—Phillips Operated	....	182,708	182,708	.0149	....	2,725.05	2,725.05
Chocolate Bayou—Phillips Operated	....	97,456	97,456	.0514	....	5,008.40	5,008.40
League City—Partner Operated	....	371,047	371,047	.0266	....	9,853.52	9,853.52
League City—Phillips Operated	....	336,984	336,984	.0320	....	10,783.29	10,783.29
Corpus Christi—Partner Operated	....	563,995	563,995	.0317	....	17,864.26	17,864.26
Corpus Christi—Phillips Operated	....	1,391,917	1,391,917	.0361	....	50,192.44	50,192.44
North Central Texas—Partner Operated	....	6,119	6,119	.0522	....	319.25	319.25
North Central Texas—Phillips Operated	....	725,430	725,430	.0439	....	31,859.31	31,859.31
Big Springs—Partner Operated	....	39,682	39,682	.0372	....	1,477.71	1,477.71
Big Springs—Phillips Operated	....	537,689	537,689	.0337	....	18,112.08	18,112.08
West Texas—Partner Operated	....	295,577	295,577	.0280	....	8,267.24	8,267.24
West Texas—Phillips Operated	....	5,292,832	5,292,832	.0417	....	220,633.67	220,633.67
Hobbs Texas—Partner Operated	....	92,601	92,601	.0303	....	2,805.19	2,805.19
Hobbs Texas—Phillips Operated	....	135,868	135,868	.0256	....	3,479.70	3,479.70
Panhandle—Partner Operated	....	132,651	132,651	.0485	....	6,429.63	6,429.63
Panhandle—Phillips Operated	....	1,787,755	1,787,755	.0455	....	$ 81,255.07	$ 81,255.07

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PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

Area or District	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales From Oil Leases (continued)							
Ardmore—Partner Operated	....	817,479	817,479	$ .0174	....	$ 14,184.03	$ 14,184.03
Ardmore—Phillips Operated							
Lone Star Gas Company	297,574	....	297,574	.0538	$ 16,019.66	....	16,019.66
Consolidated Gas Utilities Co.	38,453	....	38,453	.0539	2,072.92	....	2,072.92
Other	....	978,003	978,003	.0286	....	27,975.05	27,975.05
Total Phillips Operated	336,027	978,003	1,314,030	.0351	18,092.58	27,975.05	46,067.63
West Edmond—Partner Operated	....	852,360	852,360	.0352	....	29,994.49	29,994.49
Guthrie—Partner Operated	....	348,499	348,499	.0360	....	12,552.00	12,552.00
Guthrie—Phillips Operated	....	326,029	326,029	.0302	....	9,835.04	9,835.04
Oklahoma City—Partner Operated	....	26,846	26,846	.0740	....	1,987.81	1,987.81
Oklahoma City—Phillips Operated	....	4,382	4,382	.0449	....	196.86	196.86
Seminole—Partner Operated	....	39,332	39,332	.0391	....	1,536.23	1,536.23
Seminole—Phillips Operated	....	939,795	939,795	.0476	....	44,699.11	44,699.11
South Burbank—Phillips Operated	....	526,124	526,124	.0233	....	12,269.41	12,269.41
North Burbank—Phillips Operated	....	941,466	941,466	.0262	....	24,625.57	24,625.57
Pawnee—Phillips Operated	....	76,039	76,039	.0448	....	3,407.57	3,407.57
Bartlesville—Partner Operated	....	....	....	....	....	43.25	43.25
Total Gas Sales From Oil Leases	6,662,238	27,243,366	33,905,604	$ .0361	$ 252,898.14	$ 970,597.28	$ 1,223,495.42

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PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

Area or District	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales from Phillips' Royalties							
Texas							
Lone Star Gas Company	8,477	....	8,477	$ .0535	$ 453.46	....	$ 453.46
Texoma Natural Gas Company	48,438	....	48,438	.0427	2,067.16	....	2,067.16
United Gas Pipe Line Company	9,702	....	9,702	.0542	526.13	....	526.13
Other	....	1,643,121	1,643,121	.0431	....	70,846.33	70,846.33
Total	66,617	1,643,121	1,709,738	.0432	3,046.75	70,846.33	73,893.08
Oklahoma							
Lone Star Gas Company	2,676	....	2,676	.0568	152.12	....	152.12
Other	....	104,530	104,530	.0505	....	5,279.80	5,279.80
Total	2,676	104,530	107,206	.0507	152.12	5,279.80	5,431.92
Kansas							
Union Gas System	489	....	489	.0718	35.13	....	35.13
Arkansas	....	63,338	63,338	.0122	....	770.50	770.50
Louisiana	....	26,008	26,008	.0702	....	1,826.52	1,826.52
New Mexico	....	857	857	.0343	....	29.40	29.40
Total Gas Sales from Royalties	69,782	1,837,854	1,907,636	$ .0430	$ 3,234.00	$ 78,752.55	$ 81,986.55

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

[7827]
Sheet 7 of 12

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Area or District	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales From Dry Gas Leases							
Minden North La.—Partner Operated							
Arkansas Louisiana Gas Company	39,501	....	39,501	$ .0409	$ 1,613.74	$	$ 1,613.74
Western Kansas—Phillips Operated							
Kansas Nebraska Natural Gas Co.	173,461	....	173,461	.0359	6,233.88	....	6,233.88
East Texas—Partner Operated							
Arkansas Louisiana Gas Company	41,904	....	41,904	.1044	4,376.14	....	4,376.14
Other	....	385,997	385,997	.0894	....	34,521.97	34,521.97
Total Partner Operated	41,904	385,997	427,901	.0909	4,376.14	34,521.97	38,898.11
East Texas—Phillips Operated							
United Gas Pipe Line Company	1,983,389	....	1,983,389	.0870	172,499.24	....	172,499.24
Other	....	47,909	47,909	.0775	....	3,711.44	3,711.44
Total Phillips Operated	1,983,389	47,909	2,031,298	.0867	172,499.24	3,711.44	176,210.68
Beaumont—Partner Operated	....	239,864	239,864	.0309	....	7,407.15	7,407.15
L/T Marine—Phillips Operated	....	88,915	88,915	.0245	....	2,177.23	2,177.23
Corpus Christi—Partner Operated	....	235,912	235,912	.0360	....	8,492.03	8,492.03
Corpus Christi—Phillips Operated							
United Gas Pipe Line Company	39,980	....	39,980	.0270	1,077.64	....	1,077.64
Other	....	112,317	112,317	.0430	....	4,584.30	4,584.30
Total Phillips Operated	39,980	112,317	152,297	.0372	1,077.64	4,584.30	5,661.94
Big Springs—Partner Operated	....	....	....	....	....	862.97	862.97

Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

[7828]

Sheet 8 of 12

Area or District	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales From Dry Gas Leases (continued)							
Panhandle—Partner Operated							
Northern Natural Gas Company	49,157	....	49,159	$ .0454	$ 2,229.46	....	$ 2,229.46
Other	....	318,244	318,244	.0326		$ 10,372.02	10,372.02
Total Partner Operated	49,157	318,244	367,401	.0343	2,229.46	10,372.02	12,601.48
Panhandle—Phillips Operated							
Panhandle Eastern Pipe Line Co.	12,671,885	....	12,671,885	.0295	374,355.77	....	374,355.77
Other	....	1,811,337	1,811,337	.0312	....	56,479.71	56,479.71
Total Phillips Operated	12,671,885	1,811,337	14,483,222	.0297	374,355.77	56,479.71	430,835.48
Ardmore—Partner Operated	....	24,733	24,733	.0449	....	1,111.08	1,111.08
Ardmore—Phillips Operated							
Lone Star Gas Company	51,700	....	51,700	.0525	2,716.80	....	2,716.80
Consolidated Gas Utilities Corp.	2,553,961	....	2,553,961	.0532	135,878.78	....	135,878.78
Other	....	784,304	784,304	.0530	....	41,590.23	41,590.53
Total Phillips Operated	2,605,661	784,304	3,389,965	.0532	138,595.58	41,590.23	180,185.81
Guymon—Partner Operated							
Southwest Public Service Co.	75,305	....	75,305	.0414	3,121.20	....	3,121.20
Other	....	3,932	3,932	.0400	....	157.48	157.48
Total Partner Operated	75,305	3,932	79,237	.0414	3,121.20	157.48	3,278.63
Guymon—Phillips Operated	....	1,958	1,958	.0657	....	128.64	128.64
Guthrie—Phillips Operated	....	917	917	.0537	....	49.21	49.21
Oklahoma City—Partner Operated	....	41,832	41,832	.0450	....	1,881.92	1,881.92
Seminole—Phillips Operated	....	411,977	411,977	.0452	....	18,601.99	18,601.99
South Burbank—Partner Operated	....	2,842	2,842	.0603	....	171.29	171.29
Total Gas Sales From Dry Gas Leases	17,680,243	4,512,990	22,193,233	$ .0404	$ 704,102.65	$ 192,300.66	$ 896,403.31

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

[7829]

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Area or District	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Gas Sales From Cycling Operations							
Texas Eastern Transmission Co.	340,309	....	340,309	$ .0588	$ 19,996.92	$	$ 19,996.92
Other	....	11,228	11,228	.1000	....	1,122.81	1,122.81
Total Gas Sales From Cycling Operations	340,309	11,228	351,537	.0601	19,996.92	1,122.81	21,119.73
Gas Sales From Distributing Systems							
Phillips Natural Gas Company							
Southern Union Gas Co.	29,838	....	29,838	.0882	2,631.95	....	2,631.95
Southwestern Public Service Co.	13,408	....	13,408	.0661	886.55	....	886.55
Other	....	1,110,313	1,110,313	.0855	....	95,133.23	95,133.23
Total	43,246	1,110,313	1,153,559	.0853	3,518.50	95,133.23	98,651.73
Russell	....	417,465	417,465	.1811	....	75,602.18	75,602.18
Cactus	....	3,059	3,059	.0625	....	191.26	191.26
Chocolate Bayou	....	33,649,485	33,649,485	.0539	....	1,814,420.18	1,814,420.18
Total Gas Sales From Distributing Systems	43,246	35,180,322	35,223,568	.0565	3,518.50	1,985,346.85	1,988,865.35
Gas Sales by Independent Natural Gas Company							
Burbank	....	23,069	23,069	.3151	....	7,269.72	7,269.72
Oklahoma City	....	915,310	915,310	.0841	....	76,939.97	76,939.97
Lodi							
Arkansas Louisiana Gas Company	247,037	....	247,037	.0309	7,628.64	....	7,628.64
Texas Miscellaneous							
Southern Union Gas Company	39,270	....	39,270	.0882	3,463.67	....	3,463.67
Southwestern Public Service Co.	19,150	....	19,150	.0661	1,266.16	....	1,266.16
Other	....	65,243	65,243	.0766	....	5,001.70	5,001.70
Total Texas Miscellaneous	58,420	65,243	123,663	.0787	4,729.83	5,001.70	9,731.53
Grayco Station							
Northern Natural Gas Company	12,453,723	....	12,453,723	.0517	643,386.43	....	643,386.43
Total Gas Sales by Independent N. G. Co.	12,759,180	1,003,622	13,762,802	$ .0541	$ 655,744.90	$ 89,211.39	$ 744,956.29

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

[7830]
Sheet 10 of 12

Gasoline Plant	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Sales of Residue Gas							
Canadian	....	3,349,658	3,349,658	$ .0546	$	$ 183,044.77	$ 183,004.77
Edmond (50% Interest)							
Cities Service Gas Company	16,691,317	....	16,691,317	.0554	924,271.63	....	924,271.63
Other	....	21,708	21,708	.0516	....	1,120.88	1,120.88
Total Edmond	16,691,317	21,708	16,713,025	.0554	924,271.63	1,120.88	925,392.51
Eliasville							
Lone Star Gas Company	550,707	....	550,707	.0544	29,945.79	....	29,945.79
Other	....	2,520	2,520	.0643	....	162.00	162.00
Total Eliasville	550,707	2,520	553,227	.0544	29,945.79	162.00	30,107.79
Eunice							
El Paso Natural Gas Company	29,142,378	....	29,142,378	.0385	1,121,100.80	....	1,121,100.80
Southern California Gas Co.	....	....	....	....	27,444.59	....	27,444.59
Southern Counties Gas Co.	....	....	....	....	9,148.19	....	9,148.19
Other	....	10,637,286	10,637,286	.0401	....	426,690.32	426,690.32
Total Eunice	29,142,378	10,637,286	39,779,664	.0398	1,157,693.58	426,690.32	1,584,383.90
Fullerton (50% Interest)							
El Paso Natural Gas Company	7,229,322	....	7,229,322	.0417	301,237.13	....	301,237.13
Southern California Gas Company	....	....	....	....	11,875.89	....	11,875.89
Southern Counties Gas Company	....	....	....	....	3,958.65	....	3,958.65
Other	....	192,179	192,179	.0401	....	7,715.19	7,715.19
Total Fullerton	7,229,322	192,179	7,421,501	.0438	317,071.67	7,715.19	324,786.86
Goldsmith							
El Paso Natural Gas Company	21,168,808	....	21,168,808	.0496	1,049,399.55	....	1,049,399.55
Southern California Gas Company	....	....	....	....	131.73	....	131.73
Southern Counties Gas Company	....	....	....	....	43.91	....	43.91
Other	....	56,277	56,277	.0709	....	3,990.25	3,990.25
Total Goldsmith	21,168,808	56,277	21,225,085	$ .0496	$ 1,049,575.19	$ 3,990.25	$ 1,053,565.44

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Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

Gasoline Plant	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Sales of Residue Gas (continued)							
Hansford							
Panhandle Eastern Pipe Line Co.	34,803,473	....	34,803,473	$ .0365	$ 1,270,734.26	$	$ 1,270,734.26
Hunton (37.60116160% Interest)	....	4,538,018	4,538,018	.0513	....	232,753.30	232,753.30
Ibex							
Lone Star Gas Company	628,236	....	628,236	.0539	33,867.69	....	33,867.69
Other	....	47,703	47,703	.1018	....	4,858.47	4,858.47
Total Ibex	628,236	47,703	675,939	.0573	33,867.69	4,858.47	38,726.16
Judkins							
Keystone (9.8% Interest)	....	2,202,459	2,202,459	.0454	....	99,953.24	99,953.24
El Paso Natural Gas Company	1,164,051	....	1,164,051	.0623	72,514.79	....	72,514.79
Lee							
El Paso Natural Gas Company	635,875	....	635,875	.0494	31,422.39	....	31,422.39
Other	....	4,607	4,607	.0481	....	221.49	221.49
Total Lee	635,875	4,607	640,482	.0494	31,422.39	221.49	31,643.88
Lodi							
Lodi Booster Station	....	2,117	2,117	.0290	....	61.34	61.34
Arkansas Louisiana Gas Company	1,252,653	....	1,252,653	.0397	49,734.75	....	49,734.75
Mankins							
Lone Star Gas Company	1,249	....	1,249	.0269	33.66	....	33.66
United Gas Pipe Line Company	281,369	....	281,369	.0359	10,112.12	....	10,112.12
Other	....	26,376	26,376	.0261	....	688.81	688.81
Total Mankins	282,618	26,376	308,994	.0351	10,145.78	688.81	10,834.59
Seminole	....	5,752,460	5,752,460	.0497	....	285,775.91	285,775.91

Docket No. G-1148

PHILLIPS PETROLEUM COMPANY
OUTSIDE SALES OF NATURAL GAS
IN 1949

[7832]
Sheet 12 of 12

Gasoline Plant	Volume in Mcf @ 14.735 p.s.i.a.				Amount		
	Sales to Companies Reporting to F. P. C. as Natural Gas Companies	Other Sales	Total Sales	Price Per Mcf	Sales to Companies Reporting To F. P. C. as Natural Gas Companies	Other Sales	Total Sales
Sales of Residue Gas (continued)							
Sherman							
Michigan Wisconsin Pipe Line Co.	9,894,001	....	9,894,001	$ .0809	$ 800,150.73	$	$ 800,150.73
Other	....	5,256	5,256	.0607	....	318.78	318.78
Total Sherman	9,894,001	5,256	9,899,257	.0809	800,150.73	318.78	800,469.51
Wewoka	....	410,496	410,496	.0449	....	18,420.29	18,420.29
Billings (25% Interest)	....	....	....	....	....	2,010.11	2,010.11
Crane	....	7,721	7,721	.0448	....	346.09	346.09
Denoya	....	6,797	6,797	.0502	....	341.09	341.09
Elk Basin (.0068060% Interest)	....	2,065	2,065	.0600	....	123.90	123.90
Hobbs	....	31,850	31,850	.0457	....	1,455.80	1,455.80
Lucien (8/108 Interest)	....	....	....	....	....	241.17	241.17
Reserve	....	510	510	.0500	....	25.51	25.51
Borger Residue System							
El Paso Natural Gas Company	28,600,206	....	28,600,206	.0522	1,491,632.38	....	1,491,632.38
Panhandle Eastern Pipe Line Co.	20,452,847	....	20,452,847	.0397	811,890.81	....	811,890.81
Southwestern Public Service Co.	6,375,744	....	6,375,744	.0526	334,520.74	....	334,520.74
Texoma Natural Gas Company	3,738,021	....	3,738,021	.0958	358,088.50	....	358,088.50
Other*	....	83,352,325	83,352,325	.0535	....	4,458,284.54	4,458,284.54
Total Borger Residue System	59,166,818	83,352,325	142,519,143	.0523	2,996,132.43	4,458,284.54	7,454,416.97
Capitol Residue System	....	543,403	543,403	.0464	....	25,215.41	25,215.41
Pampa Residue System							
Southwestern Public Service Co.	716,324	....	716,324	.0534	38,244.75	....	38,244.75
Other	....	14,378,231	14,378,231	.0622	....	893,932.06	893,932.06
Total Pampa Residue System	716,324	14,378,231	15,094,555	.0618	38,244.75	893,932.06	932,176.81
Total Sales of Residue Gas	183,326,581	125,572,022	308,898,603	$ .0499	$ 8,781,505.43	$ 6,647,710.72	$15,429,216.15

*Includes vapors sold through Borger Residue System.

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Exhibit No. 58

PHILLIPS PETROLEUM COMPANY
PANHANDLE & HUGOTON FIELD GASOLINE PLANTS

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PHILLIPS PETROLEUM COMANY [7836]

PANHANDLE & HUGOTON FIELD GASOLINE PLANTS

Year 1950 Month	Dumas Plant Volume* Processed @ 14.65	Dumas Plant Volume* Flared @ 14.65	Sherman Plant Volume* Processed @ 14.65	Sherman Plant Volume* Flared @ 14.65	Hansford Plant Volume* Processed @ 14.65	Hansford Plant Volume* Flared @ 14.65	Gray Plant Volume* Processed @ 14.65	Gray Plant Volume* Flared @ 14.65	Sneed Plant Volume* Processed @ 14.65	Sneed Plant Volume* Flared @ 14.65
January	5,079,866 MCF	—0—	5,316,543 MCF	—0—	2,956,785 MCF	—0—	1,942,215 MCF	—0—	6,663,262 MCF	—0—
February	4,913,113 MCF	—0—	5,476,142 MCF	—0—	2,456,783 MCF	—0—	1,819,098 MCF	—0—	6,101,916 MCF	—0—
March	5,427,116 MCF	—0—	6,141,866 MCF	—0—	2,773,605 MCF	—0—	1,699,470 MCF	—0—	6,876,664 MCF	—0—
April	5,187,520 MCF	—0—	5,953,551 MCF	—0—	2,553,321 MCF	—0—	1,438,086 MCF	3,630	6,776,812 MCF	—0—
May	5,008,620 MCF	—0—	6,203,224 MCF	—0—	2,685,967 MCF	—0—	1,372,128 MCF	3,875	6,762,780 MCF	—0—
June	3,928,961 MCF	—0—	5,831,390 MCF	—0—	2,626,903 MCF	—0—	1,343,498 MCF	1,320	6,455,066 MCF	—0—
July	3,622,464 MCF	—0—	6,648,583 MCF	—0—	2,739,485 MCF	—0—	1,339,491 MCF	2,480	6,561,621 MCF	—0—
August	3,555,275 MCF	—0—	6,792,328 MCF	—0—	2,697,822 MCF	—0—	1,351,268 MCF	1,581	6,795,938 MCF	—0—
September	3,110,256 MCF	—0—	6,817,845 MCF	—0—	2,602,317 MCF	—0—	1,313,912 MCF	—0—	6,619,268 MCF	—0—
October	2,551,933 MCF	—0—	7,528,671 MCF	—0—	2,731,298 MCF	—0—	1,386,629 MCF	—0—	6,903,942 MCF	—0—
November	2,949,164 MCF	—0—	8,137,926 MCF	—0—	2,666,343 MCF	—0—	1,617,663 MCF	4,320	6,815,421 MCF	—0—
December	4,986,358 MCF	—0—	8,757,584 MCF	—0—	2,816,813 MCF	—0—	1,994,114 MCF	—0—	7,051,056 MCF	—0—
Total for Year 1950	50,320,646 MCF	—0—	79,605,653 MCF	—0—	32,307,442 MCF	—0—	18,617,572 MCF	17,206	80,383,746 MCF	—0—
March	5,384,052 MCF	—0—	11,215,158 MCF	—0—	5,485,688 MCF	—0—	1,591,561 MCF	—0—	7,083,243 MCF	—0—

*Source: Texas Railroad Commission Form GP-1

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Exhibit No. 59

PHILLIPS PETROLEUM COMPANY
WESTERN DISTRICT GASOLINE PLANTS

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PHILLIPS PETROLEUM COMPANY
WESTERN DISTRICT GASOLINE PLANTS

[7837]

Year 1950 Month	Crane Plant Volume* Processed @ 14.65 psia	Crane Plant Volume* Flared @ 14.65 psia	Goldsmith Plant Volume* Processed @ 14.65 psia	Goldsmith Plant Volume* Flared @ 14.65 psia	Fullerton Plant Volume* Processed @ 14.65 psia	Fullerton Plant Volume* Flared @ 14.65 psia	Eunice Plant Volume** Processed @ 15.025 psia	Eunice Plant Volume** Flared @ 15.025 psia
January	919,806MCF	526,813MCF	1,936,544MCF	22,216MCF	1,404,786MCF	0MCF	3,517,273MCF	0MCF
February	816,952	480,583	1,807,092	20,411	920,339	0	3,251,352	0
March	896,346	539,591	2,066,132	3,868	1,322,584	1,447	3,642,686	0
April	940,403	601,442	2,298,928	60,273	1,411,153	400	3,544,412	38,522
May	936,135	554,024	2,608,605	29,806	1,458,381	38,191	3,719,198	49,533
June	959,275	633,353	2,811,956	2,889	1,586,571	20,379	3,579,880	231,774
July	1,043,744	398,756	3,098,112	13,757	1,747,322	58,724	3,739,507	69,621
August	1,055,610	32,244	3,356,134	47,641	1,852,020	239,887	3,883,977	67,373
September	1,060,703	38,458	3,612,113	101,272	1,899,109	132,142	3,700,564	360,508
October	1,084,746	61,668	3,715,856	60,961	2,028,064	205,757	3,758,831	54,211
November	1,032,792	69,191	3,164,172	15,326	1,872,468	138,534	3,576,947	82,874
December	957,908	45,631	3,066,480	13,652	1,530,358	54,150	3,641,858	123,388
Total for Year 1950	11,704,420	3,981,754	33,542,124	392,072	19,034,255	889,611	43,556,485	1,077,804
March, 1951	1,187,713	41,758	3,889,639	210,393	1,554,093	31,302	3,769,147	197,270

*Source: Texas Railroad Commission, Form GP-1
**Source: New Mexico Conservation Commission, Form C-114

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[illegible] APPENDIX

[illegible] States Court of Appeals

FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11247

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

United States Court of Appeals
For the
District of Columbia Circuit
FILED SEP 29 1952
Joseph W. Stewart
CLERK

No. 11241

CITY OF DETROIT, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11242

CITY OF KANSAS CITY, MISSOURI, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11245

CITY OF MILWAUKEE, WISCONSIN, a Municipal Corporation, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11252

COUNTY OF WAYNE, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

Review of An Order of the Federal Power Commission

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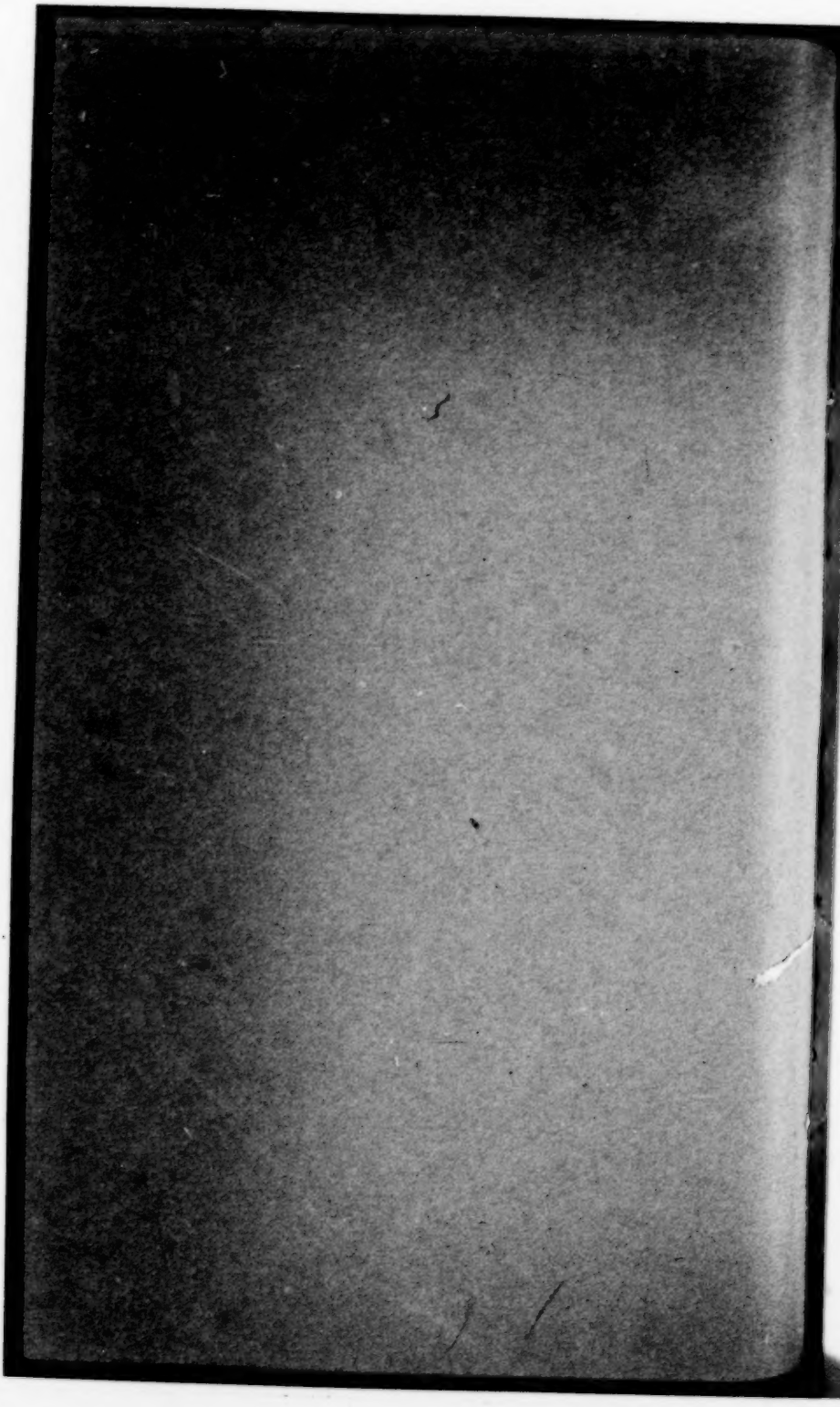

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Exhibit 62—Contract "Form No. 5265 CH-T" being a casinghead gas contract entered into on July 28, 1950 between Stanolind Oil and Gas Company and The Atlantic Refining Company, Seller, and Phillips Petroleum Company, Buyer	7870-7873	1158-1177
Exhibit 63—Phillips Petroleum Company gas statement for the month		

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of March 1951 applicable to the gas sold and purchased under Exhibit No. 62 during that month	7874-7876	1178-1182
Exhibit 64—Phillips Petroleum Company gas statement relating to gas purchased by Phillips Petroleum Company from Tascosa Gas Company in the month of February 1951	7877	1183
Exhibit 68—Copy of an unsigned letter bearing the initials of K E B: L L to Mr. Paul Endacott, dated July 22, 1949. Rejected, not received in evidence	7881-7883	1183-1187
Exhibit 69—Copy of an unsigned letter bearing the initials of K E B: L L addressed to Mr. Paul Endacott, dated October 20, 1949. Rejected, not received in evidence	7884-7887	1187-1190
Exhibit 70—Copy of an unsigned letter bearing the initials R A H: w 1, addressed to Mr. Stanley Learned and Mr. C. O. Stark, dated November 14, 1949, together with the tabulations thereto attached. Rejected, not received in evidence	7888-7892	1196-1204
Exhibit 71—Letter dated December 20, 1949 from Mr. K. E. Beall to Mr. C. O. Stark, together with the tabulations attached thereto. Rejected, not received in evidence	7892-7897	1205-1209

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Exhibit 72—Letter dated January 6, 1950 from K. E. Beall to Mr. Stanley Learned, together with tabulations. Rejected, not received in evidence	7898-7899	1209-1211
Exhibit 79—Tabulation entitled "Phillips Petroleum Company Deliveries to Michigan-Wisconsin Pipe Line Company—Gas Produced and Purchased—Daily Average M. C. F. @ 14.65 psia—Month of March 1951"	7943	1212-1213
Exhibit 81—Tabulation entitled "Phillips Petroleum Company—Exploratory Well Completions — 1941 through 1950". Rejected, not received in evidence	7950	1214
Exhibit 82—Map bearing the legend "Sheet No. 1 of Geo. F. Kelly's—Millionth Scale Base Map of—The United States—Oil and Gas Edition —(Revised)"	7951	1215
Exhibit 86—Map covering "A portion of West Texas and Southeastern New Mexico" showing Phillips' leased acreage, Phillips' gas contract, Phillips' canceled contracted acreage, Phillips' part-in-interest leases, Phillips' gasoline plants and boosters and other company gasoline and carbon black plants, and certain pipe lines	7989	1215

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Exhibit 95-A — Tabulation entitled "Percentage of Gas Supplied by Gulf Oil Corporation—Based on volumes for March 1951"	8009	1216
Exhibit 99-A—Aerial photograph of the Fullerton Plant	8014	1216-1217
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Exhibit 119—Report of the Corporation Commission of the State of Oklahoma in the matter of the application of Walker T. Pound, Conservation Office, for a well spacing order and rules and regulations governing production and ratable taking of natural gas in the Guymon-Hugoton Field, Texas County, Oklahoma, in Cause C. D. No. 983—Order No. 17867	8082-8089	1246-1265
Exhibit 120—Report of the Corporation Commission of the State of Oklahoma in Cause C. D. No. 1054, Order No. 19514, in the matter of Peerless Oil and Gas Company, a Corporation, Applicant, vs. Cities		

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Service Gas Company, Corporation, and all operators, producers and takers of natural gas in the State of Oklahoma, and particularly in the Guymon-Hugoton Field, issued December 9, 1946	8090-8094	1266-1276
Exhibit 120-A—A report of the Corporation Commission of the State of Oklahoma in Cause C. D. No. 1054, Order No. 19702, in the matter of Peerless Oil and Gas Company, a corporation, vs. Cities Service Gas Company, a corporation, et al., dated February 4, 1947	8095-8097	1277-1283
Exhibit 124—Tabulation entitled "Summary of Lists of Gas Interest Owners Paid by Phillips Petroleum Company as of July 1950"	8165	1283-1284
Exhibit 134—Memorandum effective April 1, 1951 dated May 1, 1951, from the Chief Engineer of the Texas Railroad Commission to All Gas Well Operators, to which is attached the Railroad Commission's order of April 2, 1951, fixing the allowable production of sweet and sour natural gas in the State of Texas for the month of April 1951, and the gas proration schedules for the various fields in the State	8394-8395	1284-1287
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Exhibit 169—Gas processing plant Monthly Report and Tender Operations Statement for Respondents' Crane Plant for the year 1950, and for the months of January, February and March 1951	9461-9520	1298-1359
Exhibit 170 — Gas processing plant Monthly Report and Tender Operations Statement for Respondent's Goldsmith Plant for the year 1950, and the months of January, February and March 1951		
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VOLUME IV JOINT APPENDIX

United States Court of Appeals

FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11247

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11241

CITY OF DETROIT, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11242

CITY OF KANSAS CITY, MISSOURI, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11245

CITY OF MILWAUKEE, WISCONSIN, a Municipal Corporation, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11252

COUNTY OF WAYNE, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

Review of An Order of the Federal Power Commission

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Exhibits Nos. 60-172

THE GILMAN PRESS, MADISON, WISCONSIN

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Exhibit No. 60

SECURITIES AND EXCHANGE COMMISSION
Washington

U. S. SECURITIES & EXCHANGE COMMISSION
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FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the Month of December, 1949

Phillips Petroleum Company

(Exact name of registrant as specified in charter)

Bartlesville, Oklahoma

(Address of principal executive offices)

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INFORMATION TO BE INCLUDED IN REPORT

Item 5. Guarantees of Securities of Other Issuers.

(a) If the registrant has guaranteed a material amount of securities of any issuer, other than a totally-held subsidiary, give the name of the issuer, the title of the securities guaranteed and the general effect of the contract of guaranty.

(b) If any such contract of guaranty previously reported has been materially modified, identify the contract and state briefly the general effect of the modification therein.

Answer:

Under date of April 19, 1948, the registrant guaranteed a note of Kermac Corporation (now Republic Supply Company) in the principal amount of $4,125,000. Various contracts executed on the same date were filed as Exhibit 2 to the Current Report Form 8-K for the month of April, 1948. Under date of December 22, 1949, the guaranteed note was paid in full, the registrant was released from its guaranty, and the related contract dated April 19, 1948, was terminated. Various agreements executed in connection with this transaction are included as Exhibit 1 under Item 15 of this report.

Item 9. Decrease in Amount of Securities Outstanding.

If the amount of any class of securities of the registrant outstanding has been decreased through one or more transactions and the aggregate amount of all such decreases not previously reported exceeds 5 percent of the outstanding securities of the class, furnish the following information:

(a) Title of the class, the amount outstanding as last previously reported, and the amount presently outstanding (as of a specified date).

(b) A brief description of the transaction or transactions involving the decrease and a statement of the aggregate amount of cash or the nature and aggregate amount of any other consideration paid or to be paid by the registrant in connection with such transaction or transactions.

Answer:

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On April 19, 1948, the registrant caused the sum of $4,125,000 to be advanced to Kermac Corporation (the name of which was subsequently changed to Republic Supply Company) by the First National Bank of Chicago, the said advance of $4,125,000 being evidenced by a note therefor payable five years from date and guaranteed by the registrant. In a contract dated April 19, 1948, between Kermac Corporation and the registrant providing for the sale of supplies from Kermac Corporation to the registrant, the registrant assumed, as between the two parties, the primary obligation prior to twenty years from date of the agreement to repay said loan. This transaction was reported in Current Report Form 8-K for the month of April, 1948.

On December 22, 1949, Republic Supply Company paid this entire loan of $4,125,000 with cash received as a result of the various agreements executed on that date and filed with this Current Report as Exhibit 1 under Item 15. The registrant was released from obligation for such loan and the said contract dated April 19, 1948, was terminated.

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Item 15. Exhibits.

(a) If any exhibit previously filed by the registrant has been materially amended or modified, identify the exhibit and attach a copy of the amendment or modification (or a copy of the exhibit as amended or modified) as an exhibit to the report.

(b) If any document of a character required to be filed as an exhibit to an original application for registration has been executed or otherwise put into effect, identify the document and attach a copy thereof as an exhibit to the report.

(c) If any contract, contract of guaranty of securities of another issuer, indenture, bonus, profit-sharing, pension or retirement plan, or any voting trust agreement, previously filed by the registrant has been terminated otherwise than in due course, identify the document and state the date and manner of termination thereof.

Answer:

Exhibit 2 to Current Report Form 8-K for the month of April, 1948, was identified in that report as follows:

> "An unexecuted copy of a promissory note from Kermac Corporation to The First National Bank of Chicago. Loan agreement dated April 16, 1948, between The First National Bank of Chicago, Kermac Corporation, Kerr-McGee Oil Industries, Inc., and Phillips Petroleum Company. Contract dated April 19, 1948, between Kermac Corporation and Phillips Petroleum Company providing for the sale of supplies."

On December 22, 1949, the various documents included in the said exhibit were amended or terminated as follows:

(1) The promissory note from Kermac Corporation (now Republic Supply Company) to The First National Bank of Chicago was paid in full and cancelled.

(2) The loan agreement dated April 16, 1948, between The First National Bank of Chicago, Kermac Corporation (now Republic Supply Company), Kerr-McGee Oil Industries, Inc., and Phillips Petroleum Company was amended by deleting therefrom all provisions referring or pertaining to that part of the loan known as the "B" loan note in the amount of $4,125,000 which was paid. This said amendment is filed herewith as Exhibit 1(f).

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(3) The cotract dated April 19, 1948, between Kermac Corporation (now Republic Supply Company) and Phillips Petroleum Company for the sale of supplies was terminated by an agreement filed herewith as Exhibit 1(d).

The various related agreements and documents executed on December 22, 1949, in connection with these transactions are filed as exhibits herewith as follows:

Exhibit 1(a)—Assignment and agreement between Tascosa Gas Company and Phillips Petroleum Company.

Exhibit 1(b)—Gas purchase contract between Phillips Petroleum Company and Tascosa Gas Company.

Exhibit 1(c)—Agreement between Tascosa Gas Company and Phillips Petroleum Company in respect of proceeds of a loan in the amount of $7,128,000 received by Tascosa Gas Company from The First National Bank of Chicago, and other matters.

Exhibit 1(d)—Agreement between Republic Supply Company and Phillips Petroleum Company in respect of purchase and sale of tubular goods and supplies which supersedes the contract dated April 19, 1948.

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Exhibit 1(e)—Release of guarantee of note of Republic Supply Company (previously known as Kermac Corporation) dated April 19, 1948.

Exhibit 1(f)—Modification of loan agreement dated April 16, 1948.

Exhibit 1(g)—Letter from Tascosa Gas Company to Phillips Petroleum Company dated December 22, 1949.

Exhibit 1(h)—Acceptance agreement executed by Phillips Petroleum Company.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Phillips Petroleum Company
(Registrant)

By .....
Paul Endacott
Vice President

January 9, 1950
(date)

[7842]

EXHIBIT 1 (a)

U. S. SECURITIES & EXCHANGE COMMISSION
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ASSIGNMENT AND AGREEMENT

THIS ASSIGNMENT AND AGREEMENT, made and entered into as of this 22 day of December, 1949, by and between TASCOSA GAS COMPANY, a Delaware corporation, with offices in the Kerr-McGee Building, Oklahoma City, Oklahoma, hereinafter called "Tascosa", and PHILLIPS PETROLEUM COMPANY, a Delaware corporation, with offices in Bartlesville, Oklahoma, hereinafter called "Phillips";

WITNESSETH:

Phillips is the owner of the working interest in and under certain oil and gas leases covering certain lands in the Hugoton Gas Field in Texas County, Oklahoma, and Sherman and Hansford Counties, Texas, which lands and leases are more fully described in the schedule marked Exhibit "A", attached hereto and by this reference made a part hereof. Phillips has furnished Tascosa with photocopies of said leases and its title opinions, curative matter, rental receipts, amendments, assignments and other relevant title data evidencing or qualifying its ownership of such leases. Phillips has ordered and will furnish to Tascosa, as received, supplemental abstracts covering all of said properties, supplementing to a current date subsequent to December 1, 1949, the abstracts upon which the aforesaid title opinions are based.

ARTICLE I.

Assignment of Properties

1. Subject to all of the further provisions of this agreement, Phillips hereby assigns, transfers and conveys

unto Tascosa all of Phillips' right, title and interest in and to the dry gas rights in formations above sea level in and under the aforesaid oil and gas leases insofar as such leases cover the lands specifically described in Exhibit "A", excepting and reserving unto itself, however, the overriding royalties and other rights hereinafter prescribed. Phillips will furnish Tascosa with a separate assignment, on form required by the State of Oklahoma, covering specifically any rights herein assigned in any lease from the State of Oklahoma.

2. Phillips warrants title to the interest herein assigned only against claims by, through or under Phillips.

3. Phillips excepts and reserves unto itself all oil and casinghead gas rights in all horizons and all dry gas rights in formations lying below sea level in and under said oil and gas leases, together with the appurtenant surface rights necessary or convenient for the development and operation of said leases for the production of the reserved products, and also the right to use of water and fuel gas for its engines from any formation in the development, operation and production of such reserved leasehold rights.

4. Phillips also excepts and reserves unto itself, as an overriding royalty, the following portions of the entire volumes of dry gas (remaining after deducting the volumes of gas required for development and operation) produced and saved from formations above sea level under the lands described in Exhibit "A", as that exhibit may be modified pursuant to Sections 5 and 6 of this Article I, to-wit:

(a) Prior to the time the said assigned properties have "paid out" (as that term is defined in an agreement of even date between the parties hereto in respect of the leases hereby assigned), sixteen per cent (16%);

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(b) Subsequent to the time the said assigned properties have so "paid out", forty-eight per cent (48%);

said gas to be delivered to Phillips into the pipe line which may be connected to the wells, free and clear of all risk or cost of development,

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operation or maintenance of said assigned properties and free and clear of any and all royalties, liens or charges whatsoever, except that said overriding royalty interest shall bear ad valorem taxes levied thereon and its proportionate part of any taxes levied upon, measured by or with respect to the production of gas.

5. In the event;

(a) Tascosa shall, prior to the drilling of any wells hereunder, upon examination of title to the rights herein assigned, discover any title defect (including, as such, lack of appropriate rights of consolidation to effect unity of royalty interests in the section to be drilled), which, in the judgment of its attorneys, renders the title to any portion of the assigned properties unsatisfactory for drilling, and Phillips does not remedy such defect within thirty (30) days after notice thereof has been given in writing to it by Tascosa; or

(b) Tascosa shall drill a well in accord with the provisions of this Assignment and Agreement, which, when tested, after acidizing and completing, shows an open flow of less than 2,500 M.c.f. but more than 200 M.c.f. of dry gas per day on a twenty minute pitot tube open flow test;

then, Tascosa may, at its election, reassign to Phillips all of Tascosa's right in each section of the land survey to which title is so defective or on which such a well is drilled, as the case may be, provided that such reassignment as to each such section shall be made by Tascosa within thirty (30) days after the occurrence of either of said two contingencies with respect to the section being so reassigned, and Phillips shall thereupon assign to Tascosa rights identical to those herein conveyed in oil and gas leases covering an equal number of sections of land within the area dedicated to supplying the requirements of Michigan-Wisconsin Pipe Line Company under Phillips' contract with that company dated December 11, 1945. Such sections mutually selected by Phillips and Tascosa shall be substituted in Exhibit "A" for the sections reassigned to Phillips and shall be treated thereafter as though originally made a part of the lands and leases therein described. Upon such reassignment to it of any section upon which such a well has been drilled hereunder, Phillips shall reimburse Tascosa for all of its actual out-of-pocket expenditures incurred in maintaining its rights in such section and in drilling, testing, completing and equipping such well. In the event Tascosa does not so reassign to Phillips within the time herein specified, it will be deemed to have elected to retain and drill and/or operate said section or sections in accord with all of the provisions of this agreement.

6. In the event Tascosa shall, at any time or from time to time, drill any well in accord with the provisions of this Assignment and Agreement, which, when tested, after acidizing and completing, shows an open flow of 200 M.c.f. of dry gas or less on a twenty minute pitot tube open flow test, then Tascosa shall, as often as the occasion arises, proceed to plug and abandon such well as a dry hole and restore the premises and shall then reassign to Phillips all of Tascosa's

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rights in the section of the land survey upon which such well has been drilled, and Phillips shall thereupon assign to Tascosa rights identical to those herein conveyed in oil and gas leases covering another section of land within the area dedicated to supplying the requirements of Michigan-Wisconsin Pipe Line Company under Phillips' contract with that company dated December 11, 1945. Such sections mutually selected by Phillips and Tascosa shall be substituted in Exhibit "A" for the sections reassigned to Phillips and shall be treated thereafter as though originally made a part of the lands and leases therein described.

7. As a prerequisite to reassignment by Tascosa to Phillips as above provided, Tascosa shall furnish Phillips satisfactory evidence that it has paid all bills incurred in drilling or other operations on the sections as to which rights are to be reassigned. Tascosa's reassignment shall

warrant title as against all claims by, through or under Tascosa, including any liens given to secure the loans mentioned in Section 9 of Article II below.

8. The rights herein assigned, as they may be altered from time to time by substitution of acreage as provided in Sections 5 and 6 above, shall hereinafter be referred to as the "assigned properties".

ARTICLE II.

Development of the Assigned Properties

1. The assigned properties shall be developed by drilling and completing to the depth and in the manner here-

inafter specified, one gas well to each section of the lands described in Exhibit "A", as that exhibit may be amended. Tascosa shall so drill and complete sixty (60) of such wells prior to July 1, 1950, and shall drill and complete the remaining forty (40) wells during the first six (6) months of 1951. The drilling of any well upon a section which may subsequently be reassigned to Phillips pursuant to Sections 5 and 6 of Article I above will not be considered in computing the wells herein required. Except as herein otherwise specifically provided, all wells drilled hereunder shall be drilled, tested, completed and equipped, all at the sole risk and expense of Tascosa.

2. Tascosa will drill all wells required to be drilled by it hereunder in a good and workmanlike manner to a depth sufficient to test all horizons above sea level from which other wells in the immediate area are producing dry gas in the same gas field. Tascosa will thoroughly acidize the productive formation in which the well may be completed and complete the well in accord with the current operating practice in the field.

3. Each section of the assigned properties will be developed in the sequence indicated in the schedule attached hereto, marked Exhibit "B" and by this reference made a part hereof. The location of the well upon each section will be selected by mutual agreement. Tascosa will promptly notify Phillips when each of the locations has been staked, giving the exact location in each section and the exact date on which drilling is commenced.

4. Representatives of Phillips shall have access to all wells drilled on the assigned properties and the logs thereof at any and all times and shall be furnished with samples in such horizons in said wells as may be requested by Phillips and such drilling reports and other information regarding

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the progress of said wells as Phillips may request. If the wells above provided for shall be drilled with rotary tools, tests shall be made at intervals of not less than five hundred (500) feet from the top of the hole to the ultimate depth thereof to determine the angle of deflection of the hole from vertical, and Tascosa agrees to maintain the hole within four degrees (4°) of the vertical. Where wells are drilled through or into the pay section with rotary tools Tascosa will run an electrical survey, including micro-log, on such wells so drilled hereunder and will promptly furnish Phillips with copies of all such electrical logs obtained by it and will, upon completion of the well, furnish Phillips with copies of all well logs. Tascosa shall keep the drilling mud in condition to bring representative samples to the surface. Phillips shall have the right to use any of the wells drilled hereunder to make seismic velocity determinations by use of the geophone, said determinations to be made at the expense and upon the responsibility of Phillips. Tascosa shall, in a good and workmanlike manner, test all prospective dry gas formations encountered in the drilling of said wells which show indications of being commercially productive. If any of said wells are "drilled in" with cable tools, the holes shall be kept dry and in condition for testing. If Tascosa shall take any cores while drilling said wells, it shall furnish Phillips with representative samples thereof and Phillips shall have the right to run core analyses on all such samples. Upon encountering any show of dry gas in any of said wells,

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Tascosa forthwith and before drilling or testing the formation where the show was encountered shall so notify Phillips' Geological Department at Amarillo, Texas, or Phillips' representative in the field. Tascosa will notify Phillips in

advance of making any production test on any well drilled hereunder. In addition to any and all tests made by Tascosa, Phillips may, at times arranged with Tascosa, make such production tests of wells drilled hereunder as it may desire to make at its own risk and expense.

5. Charges for wells drilled and completed hereunder will not be in excess of the competitive contract price currently being charged by independent drilling contractors for drilling and completing a similar number of similar wells in the field.

6. Phillips may, at its option, furnish currently, as needed, up to one-half (1/2) of all tubular goods required for the wells to be drilled hereunder, such tubular goods to be new and delivered at a point designated by Tascosa. Phillips will bill Tascosa for such tubular goods so furnished at mill shipment price f.o.b. the point of delivery in effect on the date of delivery. Tascosa shall promptly pay Phillips therefor upon receipt of such statements.

7. If either party commences the drilling of a well for the discovery and production of its products it shall have no obligation to tender such well to the other party hereto by reason of the fact that the latter's products may be encountered in said well. The drilling party shall take all reasonable precautions customary in the industry to protect the stratum and formation in which the other's product is found from waste and damage and to protect such stratum and formation from encroachment by water, either from above or below, by the use of approved methods and applicances and, upon taking such precautions, drilling party shall be relieved of all liability for waste incident to such drilling operations.

If either party shall drill a well nonproductive of its own products, but in which it has encountered the product

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or products of the other, it shall so notify the nondrilling party and the latter, if it so elects, shall have the right to take over such well for the production of its product or products. If nondrilling party desires to take over such well it may do so by paying drilling party the full cost of such well to the stratum or formation in which the product of nondrilling party is encountered unless such cost is in excess of the prevailing cost in the vicinity for drilling wells of like character, in which event nondrilling party shall pay only such prevailing cost; provided, however, that if drilling party encounters the product or products of nondrilling party in a well that is located on lands allocated by the nondrilling party to a well from which it is producing its product or products or on lands allocated by nondrilling party to a drilling well from which it later produces its own product or products, the take-over cost to nondrilling party shall be the salvage value of the recoverable equipment in said well. Payment for any and all take-overs hereunder shall be made within thirty (30) days after the well is so taken over and, upon payment being made during such period, nondrilling party shall be entitled to all of its products produced and saved from said well. If, within five (5) days from receipt of the notice for which provision hereinbefore is made, nondrilling party does not elect to take over a well in which its product or products have been encountered, drilling party shall plug and abandon such well. If such plugging and abandonment is precluded or prevented by any legally constituted authority having jurisdiction in the premises, then and in either of those events drilling party shall retender said well to nondrilling party and the latter, within five (5) days after receipt of such tender, may take over such well under the terms and provisions hereinbefore set forth and make such disposition thereof as it may deem advisable, or, in lieu

of such action and within ten (10) days from date of tender, nondrilling party shall assign to drilling party the right to such products of the former as can be produced from said well at its then producing depth and drilling party thereafter shall be entitled to produce and market such products from such depth only, free and clear of all rights and claims of nondrilling party. Failure

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of nondrilling party to make an election within five (5) days after any well producing its product or products is retendered to it as hereinbefore provided shall be construed as a waiver of nondrilling party's right to take over said well and drilling party thereafter shall be entitled to produce and market such products free and clear of all rights and claims of nondrilling party.

8. In the event Tascosa desires to plug and abandon any well drilled hereunder from which it has sold gas to Phillips, it shall first give Phillips written notice of such desire and Phillips shall have sixty (60) days after the receipt of such notice within which to notify Tascosa in writing whether or not Phillips elects to take over said well. In the event Phillips elects to take over said well, Tascosa shall reassign to Phillips its entire rights in the section upon which the well is located and Phillips shall pay Tascosa the salvage value of all recoverable materials in the well; provided, however, that Phillips shall not be required to make payment therefor until it shall have approved or accepted title to the assigned properties so reassigned to it. If Phillips shall fail or neglect to notify Tascosa of such election within said sixty (60) day period, it shall be deemed that Phillips does not elect to purchase said well. In the event Phillips does not elect to take over said well, Tascosa shall plug and abandon, remove all of its

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lease material and equipment therefrom and restore the premises, all at its sole risk and expense. This section shall not apply to wells reassigned to Phillips pursuant to Section 5 of Article I above.

9. Phillips shall have a lien, second only to that of The First National Bank of Chicago and The Prudential Insurance Company of America securing the loans made or to be made to Tascosa described in the Agreement between the parties hereto of even date herewith, covering the assigned properties and all wells and equipment thereon and all production therefrom to secure the performance of this agreement and said Agreement by Tascosa. Tascosa will keep the assigned properties, including all wells and equipment thereon and production therefrom, free and clear of all other liens and charges.

ARTICLE III.

Maintenance of Leasehold Rights

1. Phillips shall pay all delay rentals and shut-in gas well payments and other payments required by the provisions of the leases necessary to maintain the assigned properties in full force and effect which may accrue prior to January 1, 1952. All such payments falling due on or after January 1, 1952, will be made by Tascosa. Neither party hereto shall be liable for any inadvertent failure to make such payments but in the event Phillips' failure to make any such payment results in the creation of a title defect which is not remedied by Phillips within thirty (30) days, Tascosa shall be entitled to substitution of a new section in accord with the provisions of Section 5 of Article I above. Phillips shall bill Tascosa for all such payments

made by Phillips and Tascosa will reimburse Phillips therefor promptly upon receipt of such statements.

2. In order that the files of both Phillips and Tascosa may be complete, Phillips will furnish to Tascosa appropriate evidence of the payment of all rentals and shut-in payments which Phillips may pay and Tascosa shall furnish to Phillips appropriate evidence of the payment of any rentals or shut-in well payments which Tascosa shall pay. Such evidence of payment of delay rentals will be furnished not later than five (5) days prior to the rental due date. Tascosa will also furnish to Phillips, immediately after the execution thereof, a copy of any designation effecting the consolidation of gas rights under the unitization privilege of leases covering the lands described in Exhibit "A".

ARTICLE IV.

Sale of Gas

1. Tascosa shall sell and Phillips shall purchase all of the gas produced from the assigned properties (exclusive of Phillips' reserved overriding royalties) except such gas as may be required for development and operation, in accord with the provisions of that certain Gas Purchase Contract of even date herewith between the parties hereto.

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2. Phillips, as purchaser of the gas, shall account directly to the royalty owners for royalties due on the gas purchased under the terms of the applicable leases and amendments thereof.

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ARTICLE V.

Preferential Right to Purchase

1. In the event Tascosa desires to sell all or any part of the assigned properties, Phillips shall have a preferential right to purchase same, and in the event Phillips shall desire to sell all or any part of the overriding royalties reserved to it hereunder, Tascosa shall have the preferential right to purchase same. In such event, the party desiring to sell shall submit to the other party a written offer for the sale of such interest, specifying the price and terms it is willing to accept. Unless the party receiving such notice shall accept such proposal within thirty (30) days from date of its receipt or prior to its earlier withdrawal by the party submitting it, the party desiring to sell shall be free for a period of thirty (30) days to sell such interest to a third party upon the same price and terms as those quoted or for any better price and terms than those quoted. If a sale shall not be effected to such third party within said thirty (30) day period, however, the interest in question shall not be sold or offered for sale thereafter by the party desiring to sell until the same shall again be submitted to the other party hereto in the manner hereinbefore outlines. If, however, the party receiving said notice shall elect to purchase, it shall have thirty (30) days within which to examine title to the interest offered and advise the selling party of its acceptance or rejection of title. Upon acceptance of title, the party desiring to sell shall forthwith execute, acknowledge and deliver unto the purchasing party an assignment of said interest or interests in proper form and, immediately upon receipt of such assignment, the purchasing party shall pay the selling party the stipulated price for the interest so acquired.

2. The limitations of this article shall not apply to instances in which either party desires to transfer its interest by merger, reorganization, consolidation or sale of all of its assets to a subsidiary or parent company in which it owns a majority of the stock or which owns a majority of its stock, but in the event of such disposition of the interest of either party hereto, the party acquiring such interest shall be bound by the provisions and limitations contained in this article.

3. The limitations of this article shall not apply to any lien granted to secure the aforesaid loans described in Section 9 of Article II above. In the event of the enforcement of any such lien, either by exercise of the power of sale, by judicial foreclosure or by voluntary conveyance to the lien holder in lieu of foreclosure, the interest of Tascosa may be sold, free and clear of the preferential right of Phillips to purchase the same as provided in Section 1 of this article, subject, however, to the following conditions:

(a) The party seeking to enforce any such lien shall immediately notify Phillips upon the commencement of any proceedings or other action in connection with such enforcement of lien.

(b) The conveyance executed to any purchaser at any such sale shall be made expressly subject to all of the terms and provisions of this Assignment and Agreement.

(c) The waiver herein contained is a limited waiver of the preferential right to purchase under the contingencies above stated and the purchaser at any such sale shall be and remain fully bound by the applicable provisions of this article.

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ARTICLE VI.

Miscellaneous

1. All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom such notice is given, as follows:

[7848]

Phillips Petroleum Company
Attention: Land Department
Bartlesville, Oklahoma

Tascosa Gas Company
Kerr-McGee Building
Oklahoma City, Oklahoma

The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent responsive notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

2. The terms and provisions hereof shall extend to and be binding upon the parties hereto, their respective assigns and successors in interest.

EXECUTED as of the day and year first above written.

PHILLIPS PETROLEUM COMPANY

By /s/ C. O. Stark
Vice President

TASCOSA GAS COMPANY

By /s/ D. A. McGee
President

ATTEST: (Seal)

/s/ Paul J. Parker
Assistant Secretary

ATTEST: (Seal)

/s/ Dean Terrill
Secretary

[7849]

EXHIBIT 1 (b)

GAS PURCHASE CONTRACT

THIS CONTRACT entered into as of this 22 day of December, 1949, by and between PHILLIPS PETROLEUM COMPANY, a Delaware corporation with an operating office at Bartlesville, Oklahoma, hereinafter referred to as "Buyer", and TASCOSA GAS COMPANY, a Delaware corporation with offices in the Kerr-McGee Building, Oklahoma City, Oklahoma, hereinafter referred to as "Seller";

W I T N E S S E T H:

Buyer represents to Seller that Buyer has entered into a contract with Michigan-Wisconsin Pipe Line Company pursuant to which Buyer herein is obligated to make available to said pipe line company certain reserves of natural

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gas, by dedicating to said pipe line company the reserves of natural gas accumulated, at depths above sea level, in and under leases belonging to others with whom Buyer may enter into contracts for the purchase of natural gas, which leases are situated in Dallam, Sherman and Hansford Counties, Texas, and in Texas County, Oklahoma, and which comprise a part of the so-called Hugoton Gas Field (which gas field covers approximately 2,500,000 acres of land in Kansas, Oklahoma and Texas). In and by the said contract between Buyer herein and said pipe line company, said pipe line company agrees to purchase its requirements of gas up to 343 million cubic feet per day (at 14.735 pounds and 60° F.) from Buyer in said area.

Seller represents that it is the owner of rights conveyed to it in the Assignment and Agreement of even date herewith between the parties hereto in and under the lands described in the schedule attached to that Assignment and Agreement as Exhibit "A", as that exhibit may be modified (hereinafter referred to as "the acreage covered hereby").

It is understood that Buyer shall not be required to dedicate or deliver all of the gas purchased hereunder to Michigan-Wisconsin Pipe Line Company but shall have the right to use or sell to others than Michigan-Wisconsin Pipe Line Company a portion of the gas purchased hereunder.

NOW, THEREFORE, in consideration of the sum of Ten Dollars ($10.00), in hand paid by Buyer to Seller, and other good and valuable considerations, the receipt and sufficiency whereof is hereby acknowledged, and, further, in consideration of the mutual benefits and advantages flowing to Seller and to Buyer hereunder, the parties hereto agree as follows:

ARTICLE I.

SALE AND PURCHASE OF GAS

Section 1. Subject to and in accordance with the terms of this contract, Seller agrees to sell and deliver to Buyer and Buyer agrees to purchase and pay for all natural gas produced from the acreage covered hereby (exclusive of Buyer's reserved overriding royalties), except such volumes of gas as shall be required for the development and operation of said acreage for oil and gas purposes and such volumes of gas as may be reserved to and taken by lessors for domestic purposes.

Section 2. Buyer agrees that with respect to and within the limits of each market to which Buyer shall deliver gas purchased hereunder, Buyer will take natural gas ratably from the acreage covered hereby in the same proportion that it takes natural gas from all other wells in the same field for such market. It is recognized and agreed that in taking natural gas ratably Buyer will be unable, due to varying operating conditions, to withdraw natural gas in exact ratable proportions during any specific month, but Buyer agrees that, to the best of its ability, by balancing excesses against deficiencies during a period of reasonable duration, it will maintain a ratable proportion of withdrawals for each market from the acreage covered hereby as compared with withdrawals from all other wells in the same field from which it takes gas for such market.

Section 3. Subject to and in accordance with the terms of this contract, Seller hereby dedicates to the fulfillment of its obligation to sell and deliver gas to Buyer hereunder all its rights in the gas and gas reserves in and under all of the acreage covered hereby.

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ARTICLE II.

TERM

This agreement shall remain in force and effect from the date hereof and thereafter as long as any of the oil and gas leases or gas leases on the acreage covered hereby, or any extensions or renewals thereof, remain in force and effect and gas shall be produced from such leases from depths above sea level.

ARTICLE III.

DELIVERY POINT

Section 1. The point of delivery for all gas purchased and sold hereunder shall be at the mouths of the respective wells on the acreage covered hereby.

Section 2. In so far as Seller is able to convey such rights, Buyer shall have and it hereby is granted an easement and servitude on the acreage covered hereby for installing, operating and maintaining equipment used in conjunction with the measurement and removal of gas purchased and sold hereunder, shall have the right to operate, inspect and test such equipment at any time and shall have free access at all times to any part of the acreage covered hereby for any purpose connected with any matter or thing covered by this contract.

Section 3. Seller shall be deemed to be in control and possession of the gas deliverable hereunder and responsible

for any damage or injury caused thereby until said gas shall have been delivered to Buyer at the delivery points, after which delivery Buyer shall be deemed to be in exclusive control and possession of the gas and responsible for any injury or damage caused thereby.

ARTICLE IV.

DEFINITIONS

For the purpose of this contract only:

1. The terms "gas" and "natural gas" shall mean natural gas produced from gas wells from depths above sea level and shall not include casinghead gas.

2. The term "gas lease" shall mean all rights in respect of gas produced from gas wells under gas leases or oil and gas leases, but does not include any rights in respect of crude oil or casinghead gas.

3. The term "casinghead gas" shall mean gas produced from oil wells together with the crude oil and from the same formation or formations from which the crude oil is produced.

4. The term "ratably" as used herein means taking or producing the volume of gas necessary to be taken or produced from any developed unit in order to produce such unit without discrimination and proportionately with other developed units, as determined by valid statutes and regulatory orders, or, in the absence of such statutes or regulatory orders, by a proper engineering formula giving weight to acreage, said formula to be selected by Buyer after consultation with Seller.

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ARTICLE V.

AVAILABILITY OF GAS

Section 1. Upon the commencement of operations for the drilling of any well on the acreage covered hereby, Seller shall notify Buyer in writing as to the location of such well and the estimated number of days that will be required to complete the same. Upon completion of said well, Seller shall forthwith advise Buyer in writing as to the production encountered, if any, setting forth the daily volume or volumes thereof as reflected by any test or tests that may be required by the Railroad Commission of Texas or the Corporation Commission of Oklahoma. Buyer shall complete the installation of all necessary lines, measuring stations and other equipment required to connect each well drilled on the acreage covered hereby and begin taking natural gas from each such well within sixty (60) days from the date of receipt of notice that Seller has completed such well as a producer of natural gas in commercial quantities.

Section 2. Buyer agrees that, without cost or expense to Seller, it will construct, install, maintain and operate, or cause to be constructed, installed, maintained and operated, gathering facilities and equipment adequate and sufficient in size and capacity to enable it at all times to receive and take gas ratably as provided in Section 2 of Article I hereof.

Section 3. Notwithstanding the provisions of Section 2 of this Article V, Buyer shall not be obligated

(a) to connect to any well of Seller, or

(b) to reconnect to any well of Seller from which it has disconnected, as authorized by any provision

of this contract, and from which it has removed the meter and gathering facilities serving that well only,

unless said well has the ability to produce a daily average volume of 100,000 cubic feet of natural gas per day at the end of seventy-two (72) hours' flow against back pressure at the well equal to eighty per cent (80%) of the shut-in wellhead pressure of such well; provided, that if Buyer elects not to connect or reconnect to any such well, as the case may be, Buyer nevertheless shall, upon Seller's request, accept gas from any such well of smaller capacity if Seller shall bear the cost of facilities, including pipe line, valves, meter and compressing equipment, necessary to deliver and measure the gas from such well into Buyer's nearest pipe line. Buyer shall not be required to continue taking natural gas from and Buyer shall have the right to disconnect from any well of Seller when the natural shut-in well pressure of such well drops below fifty (50) pounds. If, after Seller shall have made such tests or taken such remedial measures with respect to any well drilled by Seller on the acreage covered hereby as a reasonably prudent operator, under the same or similar circumstances, would make in a good faith effort to comply with this contract, and Buyer has not connected or reconnected therewith and is not obligated under the provisions of this contract to connect or reconnect therewith, then Seller shall have the right, free of this contract, to use or to sell to others than Buyer any gas thereafter produced from such well, and at any time thereafter, on Seller's written request, Buyer shall release the said well, together with the surrounding acreage which constitutes the unit on which said well is located, from all of the obligations of this contract.

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ARTICLE VI.

QUALITY

Section 1. All gas delivered by Seller under the terms of this contract shall conform to the following specifications:

(a) *Solids.* The gas delivered at each delivery point shall be commercially free from solid matter, dust, gums and gum-forming constituents which might interfere with its merchantability or cause injury to or interference with proper operation of the lines, regulators, meters or other appliances through which it flows.

(b) *Oxygen.* The gas delivered at each delivery point shall not have an oxygen content in excess of one per cent (1%) by volume at any time and Seller shall make every reasonable effort to keep the gas free of oxygen.

Section 2. Buyer shall have the right to reject any gas delivered from any well which does not meet the specifications of subparagraph (a) or (b) of Section 1 above. In the event Buyer shall discontinue taking gas from any well by reason of any of the provisions of this Article VI and if, by diligent effort by Seller, the gas from such well cannot be made acceptable to Buyer, Seller shall thereafter have the right to use or sell the gas from any such well to others free of this contract and, upon Seller's written request, the acreage allocated to said well shall thereafter be released from this contract.

ARTICLE VII.

PRICE

The price for all gas sold and purchased hereunder which is measured without correction for deviation from ideal gas laws shall be 6.2531 cents per M.c.f. The

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price for all gas sold and purchased hereunder which is measured with correction for deviation from ideal gas laws shall be a price which bears the same ratio to 6.2531 cents per M.c.f. as the volume which would have been obtained had such gas been measured without correction for such deviation bears to the volume so measured with correction for such deviation.

ARTICLE VIII.

TAXES

Seller shall pay all present and future property taxes on its gas rights and facilities, except future increases in gross production taxes levied in lieu of property taxes, and shall pay all gross production taxes, severance taxes and other excise taxes levied at the rates now existing upon or in respect of the gas delivered hereunder up to the point of delivery of the gas to Buyer. It is understood that Buyer's contract with Michigan-Wisconsin Pipe Line Company provides that the latter shall assume three-fourths (3/4) of all increases above the present rates of gross production taxes, severance taxes and excise taxes upon or in respect of the gas delivered hereunder and taken by

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said pipe line company or upon or in respect of the production or handling thereof and Buyer hereby agrees to assume three-fourths (3/4) of all increases above the present rates of such taxes upon or in respect of the gas delivered hereunder and disposed of in other markets or used by Buyer. It is agreed that the remaining one-fourth (1/4) of all such increases applicable to the gas delivered hereunder while it remains in the possession of Seller shall be borne by Seller herein. The term "excise taxes" as used in this section shall not include any taxes based on income, profits or the right to exercise the corporate franchise of Seller, all of which and all increases in which shall be paid by Seller.

ARTICLE IX.

STANDARDS OF MEASUREMENTS AND TESTS

Section 1. The unit of volume of gas delivered hereunder shall be one cubic foot of gas at an absolute pressure of 14.65 pounds per square inch and at a base temperature of 60° F.

Section 2. The volumes of gas delivered hereunder from wells in Oklahoma shall be computed in accordance with the methods prescribed in Gas Measurements Committee Report No. 2, Natural Gas Department, American Gas Association, including the Appendix thereto as published May 6, 1935, except that the gas shall be assumed to observe Boyle's Law, the atmospheric pressure shall be assumed to be 13.2 pounds per square inch and the flowing temperature of the gas shall be assumed to be 60° F., unless the Buyer, at its option, installs a recording thermometer or thermometers to record the temperature of gas flowing through meters, in which event the arithmetic average

temperature at any meter during each chart period shall be used in computing the volumes of gas measured through such meter during such period.

Section 3. The volumes of gas delivered hereunder from wells in Texas shall be computed as provided in Section 2 of this article except insofar as the applicable rules, regulations and orders of the Railroad Commission of Texas require deviation from such methods.

Section 4. Tests shall be taken for the purpose of determining ratable takes hereunder as provided in Section 2 of Article I on all connected wells annually and as far as practicable during the months of July, August and September. Tests of each newly completed well and of each well not connected at the time of the last annual test shall be made within thirty (30) days following the connection thereof. Advance notice of the date upon which each and every such test of wells of Seller is to be made shall be given to Seller that the latter may have representatives present to witness such tests.

ARTICLE X.

MEASUREMENT

Section 1. Buyer shall install, maintain and operate at its own expense all equipment required for the measurement of volumes and temperatures of all gas delivered hereunder. Seller shall have access to such measuring equipment at all reasonable

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hours, but the calibrating and adjusting thereof and the changing of charts shall be done only by Buyer. Buyer

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shall mail or deliver to Seller for checking and calculation all volume and temperature meter charts used in the measurement of gas delivered hereunder within five (5) days after the last chart for each billing period is removed from the meter. Such charts shall be mailed or returned to Buyer within five (5) days after receipt thereof by Seller.

Section 2. Seller may install, maintain and operate such check measuring equipment as it shall desire.

Section 3. Buyer and Seller shall each have the right to be present at the time of any installing, testing, cleaning, changing, repairing, inspecting, calibrating or adjusting done in connection with the measuring equipment of the other used in measuring deliveries hereunder. The party performing such work shall give the other party hereto reasonable notice of the time and place such work shall be performed that the latter may have a representative or representatives present if it so desires.

Section 4. If, for any reason, Buyer's measuring equipment is out of service or out of repair, with the result that the quantity of gas delivered is not correctly indicated by the reading thereof, the gas delivered through the period such measuring equipment is out of service or out of repair shall be estimated and agreed upon on the basis of the best data available, using the first of the following methods which is feasible:

(a) By using the registration of any check measuring equipment if installed and accurately registering;

(b) By correcting the error if the percentage of error is ascertainable by calibration, test or mathematical calculations; or

(c) By estimating the quantity of delivery by deliveries during preceding periods under similar con-

ditions when the meter equipment was registering accurately.

Section 5. The accuracy of the measuring equipment at all places of delivery shall be verified at reasonable intervals and whenever requested by Seller. If any such verification shall be requested by Seller and, upon verification, the measuring equipment shall be found to be registering correctly, the cost of such verification shall be charged to and borne by Seller; otherwise the cost of all such verifications shall be borne by Buyer.

Section 6. If, upon any test, measuring equipment is found to be not more than two per cent (2%) fast or slow, previous readings of such equipment shall be considered correct in computing the deliveries of gas hereunder, but such equipment shall forthwith be adjusted to record accurately. If, upon any test, any measuring equipment shall be found to be inaccurate by an amount exceeding two per cent (2%) then and in that event any previous readings of such equipment shall be corrected to zero error for any period which is known definitely or agreed upon, but in case the period is not known definitely or agreed upon, such correction shall be for a period covering the last half of the time elapsed since the last test, but not exceeding a period of fifteen (15) days.

Section 7. Each party hereto shall preserve or cause to be preserved for a period of at least six (6) years all test data, charts or other similar records.

ARTICLE XI.

PAYMENTS

On or before the 20th day of each calendar month

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during the term hereof, Buyer shall pay Seller for all of its gas delivered hereunder (exclusive of amounts creditable to royalty interests) during the preceding calendar month. Such payments shall be accompanied by a statement reflecting the volumes of gas delivered to Buyer from each well on the acreage covered hereby.

ARTICLE XII.

WARRANTY

Seller warrants unto Buyer the title to all gas delivered hereunder.

[7854]

ARTICLE XIII.

FORCE MAJEURE

Neither party hereto shall be liable for any failure of performance due to strikes or lockouts or to causes of any kind or character beyond its control; provided, however, that no cause shall relieve Buyer of its obligation to make payment for all gas delivered hereunder and meeting the specifications hereinbefore set forth. If either party hereto shall be unable to perform on account of any such cause, such party shall give the other party notice thereof in writing or by telegraph as soon as possible after the occurrence of the cause relied on and also shall give the other party like notice of the cessation of said cause.

ARTICLE XIV.

MISCELLANEOUS

Section 1. No waiver by either party of any one or more defaults by the other party in the performance of any of the provisions of this contract shall operate or be construed as a waiver of any other or further default or defaults, whether of a like or of a different character.

Section 2. All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing by United States Mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Buyer: Phillips Petroleum Company
Bartlesville, Oklahoma

Seller: Tascosa Gas Company
Kerr-McGee Building
Oklahoma City, Oklahoma.

The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any subsequent responsive notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company with the postage or charges prepaid.

Section 3. Each party shall have the right, at all reasonable times, to examine the books, records, charts, meters, measuring equipment and other pertinent matter and data

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and to witness tests of the other party to the extent necessary to verify the accuracy of any statement, charge, computation or demand made under or pursuant to any of the provisions of this contract.

Section 4. The term "day" as used herein shall mean a period of twenty-four (24) consecutive hours beginning and ending at 7:00 O'clock A. M. Central Standard Time or such other standard time as shall be in effect at the points of delivery hereinbefore specified.

Section 5. This contract is made subject to and in contemplation of all valid laws of the States of Texas and Oklahoma and of the United States of America and all valid rules, orders and regulations promulgated by any lawfully constituted authority having jurisdiction in the premises. Each party hereto shall be entitled to presume the validity of all orders, rules, regulations and laws of any authority purporting to have jurisdiction insofar as the same apply to such party or its performance hereunder.

Section. 6. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to, be binding upon and inure to the benefit of the parties hereto, their respective successors and assigns.

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IN WITNESS WHEREOF, this contract is executed in duplicate, each copy for all purposes to be deemed an original, the day and year first above written.

PHILLIPS PETROLEUM COMPANY

By /s/ C. O. Stark
Vice President

TASCOSA GAS COMPANY

By /s/ D. A. McGee
President

ATTEST: (Seal)

/s/ Paul J. Parker
Assistant Secretary

ATTEST: (Seal)

/s/ Dean Terrill
Secretary

[7856]

AGREEMENT

THIS AGREEMENT, made and entered into as of this 22nd day of December, 1949, by and between TASCOSA GAS COMPANY, a Delaware corporation with offices in the Kerr-McGee Building, Oklahoma City, Oklahoma, hereinafter called "Tascosa", and PHILLIPS PETROLEUM COMPANY, a Delaware corporation with offices in Bartlesville, Oklahoma, hereinafter called "Phillips",

WITNESSETH:

WHEREAS, the parties hereto have entered into the following related contracts, all effective as of the date hereof:

A. Assignment and Agreement covering assignment from Phillips to Tascosa of certain gas rights in certain acreage in the Hugoton Gas Field and the development and operation thereof by Tascosa;

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B. Gas Purchase Contract covering sale of gas produced from said assigned properties by Tascosa to Phillips; and

C. Republic Contract covering sale of tubular goods and supplies by Republic Supply Company to Phillips and application of one-half of Republic's gross profits on such sales to repayment of advances made by Tascosa to Republic out of the proceeds of the Loan Agreement described below;

and

WHEREAS, Tascosa is currently entering into a Loan Agreement of even date herewith with the First National Bank of Chicago and The Prudential Insurance Company of America, which Loan Agreement provides for the loan to Tascosa of an aggregate amount of $7,128,000 with an average interest rate over the life of the loan of 3.375% per annum, with provision for repayment of the principal thereof annually in eighteen equal installments commencing January, 1953, with the right to Tascosa to make certain principal prepayments without penalty;

NOW, THEREFORE, the premises considered, the parties mutually agree as follows:

ARTICLE I

1. Tascosa agrees that it will forthwith loan to Republic Supply Company $4,125,000 of the proceeds of the aforesaid loan, to be applied by Republic to the repayment of that portion of the B loan described in the Loan Agreement of April 16, 1948, between The First National Bank of Chicago and Kermac Corporation (now named Republic

Supply Company), which has been guaranteed by Phillips. Tascosa shall furnish or cause to be furnished to Phillips prior to December 31, 1949, satisfactory evidence of payment of said $4,125,000 portion of said B loan and the release to and of Phillips from any and all obligations and liabilities with respect thereto.

2. Tascosa will utilize the remainder of the proceeds of said loan to it as follows:

(a) First, to pay the costs of drilling, testing, completing and equipping the wells provided to be drilled by the provisions of said Assignment and Agreement.

(b) Second, the balance, if any, remaining after expiration of thirty (30) days following the completion of all of said

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wells provided to be drilled by the terms of said Assignment and Agreement, shall then be applied as a prepayment on the aforesaid loan to Tascosa.

3. Tascosa will promptly apply to the repayment of said loan to it all other monies received by it from any source (including any monies received by it from Republic under the provisions of Section 4 of said Republic Contract) except:

(a) Such amounts as may be necessary to pay the costs of maintenance and operating expenses on the assigned properties, including taxes, and the costs of drilling, testing, completing and equipping wells, to the extent that such costs may not have been paid out of the proceeds of the aforesaid loan as

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stipulated in Section 2 above, all of which costs and expenses shall be computed in accordance with the said Assignment and Agreement and the Accounting Procedure Schedule marked Exhibit "A", attached hereto and by this reference made a part hereof;

(b) Such thereof as represents its paid-in capital, provided none thereof shall be used to carry on any business or activity other than that contemplated by this and the other agreements referred to in the preamble hereof.

4. The assigned properties will be deemed to have been "paid out", as that term is used in this agreement and in said Assignment and Agreement, when the aforesaid loan to Tascosa, together with all interest thereon, has been fully paid in cash and the aggregate monies received by Tascosa (other than those described in subparagraph (b) of Section 3 above and other than the proceeds of said loan) in excess of the aggregate amounts paid on said loan, including interest, equal the aggregate of the charges mentioned in subparagraph (a) of Section 3 above.

5. Tascosa shall keep proper records and books of account covering all of its operations affecting the payout of properties assigned to it pursuant to the said Assignment and Agreement, and Phillips shall have access to said books and records and the right to audit them at any reasonable time or from time to time. Tascosa shall furnish Phillips, prior to the end of each month, statements showing the status of the payout of the said assigned properties which shall include all charges and credits thereto for the preceding month. Tascosa will prepare balance sheets and operating statements at regular intervals, not less frequently than once each calendar quarter, and will promptly

furnish to Phillips a copy of each such balance sheet and operating statement.

ARTICLE II

1. Expected minimum sales of gas under the aforesaid Gas Purchase Contract creditable to Tascosa's interest are as follows:

(a) During the calendar year 1950, an average of 477,000 M.c.f. per month.

(b) During the calendar year 1951, an average of 742,000 M.c.f. per month.

(c) During the period from January 1, 1952, until the assigned properties shall have paid out, an average of 1,060,000 M.c.f. per month.

2. (i) On or before the 20th of each month immediately following each calendar quarter of the years 1950 and 1951, Phillips shall pay to Tascosa a sum equal to the amount, if any, by which the value of expected minimum sales calculated at the price specified in said Gas Purchase Contract up to the end of the preceding calendar quarter exceeds the aggregate total of:

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(a) Amounts theretofore paid to Tascosa under this section; and

(b) Amounts received by Tascosa from Republic pursuant to the terms of the aforesaid Republic Contract; and

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(c) Amounts paid for gas delivered under said Gas Purchase Contract; and

(ii) On or before July 20, 1952, and thereafter on or before each January 20th and July 20th immediately following each calendar half year expiring during the period specified in subparagraph (c) of Section 1 of this Article II, Phillips shall pay to Tascosa a sum equal to the amount, if any, by which the value of expected minimum sales calculated at the price specified in said Gas Purchase Contract from January 1, 1950, to the end of the preceding calendar half year exceeds the aggregate total of:

(a) Amounts theretofore paid to Tascosa from January 1, 1950, under this Article II; and

(b) Amounts received by Tascosa from Republic pursuant to the terms of the aforesaid Republic Contract from January 1,, 1950; and

(c) Amounts paid for gas delivered under said Gas Purchase Contract from January 1, 1950;

it being agreed that Phillips will continue to make the payments provided above to Tascosa regardless of the volumes of gas produced or the effect of any law or governmental action affecting the price of natural gas; and any payments made pursuant to this Article II shall be deemed a prepayment to Tascosa for gas which may thereafter be delivered under said Gas Purchase Contract and shall be applied on the purchase price of first gas delivered in any subsequent month or months in excess of the aforesaid minimum quantities, provided that any such amounts not so applied prior to the time that the assigned properties are paid out, will then be repaid to Phillips by Tascosa out of all of Tascosa's net income.

ARTICLE III

Forty-eight per cent (48%) of the entire amount of all payments received by Tascosa from Republic, paid in accordance with the requirements of the aforesaid Republic Contract after the aforesaid assigned properties shall have paid out will, when received by Tascosa, be immediately paid over and delivered by Tascosa to Phillips.

ARTICLE IV

1. This agreement is entered into as a part of the transaction covered by this agreement and the other instruments referred to in the preamble hereof, and all thereof shall be construed together; provided this agreement shall remain in full force and effect until the assigned properties have been paid out, regardless of the expiration or termination for any reason of any or all of the other agreements referred to in the preamble hereof.

2. This agreement shall extend to and be binding upon the parties hereto and their respective assigns and successors in interest, it being agreed, however, that each of the parties hereto shall remain primarily liable hereunder and under the other agreements mentioned in Section 1 of this Article IV, notwithstanding any assignment or transfer of its rights, titles, interests and benefits in and under said agreements.

[7859]

EXECUTED as of the day and year first above written.

TASCOSA GAS COMPANY

By /s/ D. A. McGee
President

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PHILLIPS PETROLEUM COMPANY

By /s/ C. O. Stark
Vice President

ATTEST:

/s/ Dean Terrill (Seal)
Secretary

ATTEST:

/s/ Paul J. Parker
Assistant Secretary

SEAL

[7860]

"EXHIBIT A"

Attached to and made a part of Agreement between Tascosa Gas Company and Phillips Petroleum Company, dated December 22, 1949

ACCOUNTING PROCEDURE

The term "joint property" as herein used shall be construed to mean the assigned properties covered by the agreement to which this "Accounting Procedure" is attached.

The term "joint account" as herein used shall be construed to mean the account which will be kept to determine when said assigned properties shall have "paid out" as that term is defined in Article I of the Agreement to which this "Accounting Procedure" is attached.

The term "Operator" as herein used shall be construed to mean Tascosa Gas Company.

The term "Non-operator as herein used shall be construed to mean Phillips Petroleum Company.

I. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

(1) Delay or other rentals.

(2) Labor, teaming and other services necessary for the development, maintenance and operation of the joint property, other than services performed by Phillips for which no charge is made.

(3) Materials, equipment and supplies purchased and/or furnished by Operator from its warehouse stocks or from its other leases for use on the joint property. In so far as is practical and consistent with efficient and economical operation, only such materials shall be purchased for or transferred to the joint property as are required for immediate use, and the accumulation of warehouse and/or lease stock on the joint property shall be avoided.

(4) Moving materials to the joint property from vendor's or from Operator's warehouse in the district or from other properties of Operator, but in either of the last events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point.

(5) Moving surplus materials from the joint property to outside vendees, if sold f.o.b. destination, or minor re-

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turns to Operator's warehouse or other storage point. No charge shall be made to the joint account for moving major surplus materials to Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by special agreement with Non-operator; and no charge shall be made to the joint account for moving materials to other properties belonging to Operator, except by special agreement with Non-operator.

(6) Use of and service by Operator's exclusively owned equipment and utilities as provided in Paragraph (6) of Section II: "Basis of Charges to Joint Account."

(7) Damages or losses incurred by fire, flood, storm or from any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-operator written notice of damages or losses incurred by fire, storm, flood or other natural or accidental causes as soon as practicable after report of the same has been received by Operator.

(8) Expenses of litigation, liens, judgments and liquidated claims involving the joint property or incident to its development and operation. Actual expenses incurred by Operator or Non-operator in securing evidence pertaining to the joint property shall be a proper charge against the joint account.

(a) When any case, by prior agreement, is handled by Operator's and/or Non-operator's legal staff, thereby eliminating the retaining of outside counsel, a charge commensurate with the cost of services rendered may be made to the joint account. Charges of this nature shall not be ren-

dered until the respective legal departments have agreed upon the proper amount.

(b) Fees and expenses of outside attorneys shall not be charged to the joint account except where the employment of such outside attorneys is authorized by operator and non-operator.

(9) All taxes paid by operator including ad valorem, property, gross production, occupation and any other taxes assessed against the jointly-owned properties, the production therefrom or the operations thereon, and income taxes and corporate franchise taxes.

(10) Insurance:

(a) Premiums paid for insurance carried for the benefit of the joint account together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments and other expenses, including legal services, not recovered from insurance carrier.

(b) If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments and any other expenses, including legal services, shall be charged to the joint account.

(11) District and Camp Expense:

(a) District Expense: A proportionate share of the salaries and expenses of Operator's district superintendent and other general district employes serving the joint property whose time is not allocated directly to the joint property, and

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a proportionate share of the expense of maintaining and operating a district office in conducting the management of operations on the joint property and other properties in the same locality owned and operated by Operator, such charges to be apportioned to such properties served on the following basis: .....

(b) Camp Expense: The expense of providing and maintaining on or in the vicinity of the joint property all necessary camps, housing facilities for employes and boarding employes, if necessary. When properties other than the joint property are served by these facilities, then an equitable distribution of expense, including depreciation, or a fair monthly rental in lieu of the investment, maintenance and operating cost of buildings and other camp facilities, shall be prorated against all properties so served on the following basis: .....

(12) Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employes of Operator, including the division superintendent, the entire staff and expenses of the division office located at Oklahoma City, Oklahoma, any portion of the office expense of the principal business office located at Oklahoma City, Oklahoma, but not in lieu of field office expenses incurred in operating any such properties, and such overhead charges do not include any other expenses of Operator incurred in the development and operation of said properties, and Operator shall have the right to assess against the joint property covered hereby the following overhead charges:

(a) $100.00 per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

(b) $5.00 per well per month for producing wells.

In connection with overhead charges, the status of wells shall be as follows:

(1) In-put or key wells shall be included in overhead schedule the same as producing oil wells.

(2) Producing gas wells shall be included in overhead schedule the same as producing oil wells.

(3) Wells permanently shut down but on which plugging operations are deferred, shall be dropped from overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.

(4) Wells being plugged back, drilled deeper or reconditioned shall be included in overhead schedule the same as drilling wells.

(5) Wells which are shut down temporarily and later replaced on production. If and when a well is shut down (other than for proration) and not produced or worked upon for a period of a full calendar month, it shall not be included on the overhead schedule for such month.

(6) Salt water disposal wells shall not be included in overhead schedule.

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The above specific overhead rates may be amended from time to time by agreement between Operator and Non-operator if, in practice, they are found to be insufficient or excessive.

In lieu of the charges provided in (11) above, the joint account shall be charged at the rate of $25.00 per well per month, except drilling wells, which shall be charged at the rate of $100.00 each per month.

[7861]

(13) Warehouse Handling Charges: .....None.....

(14) Any other expenditure incurred by Operator for the necessary and proper development, maintenance and operation of the joint property, except that Operator shall not charge the joint account with any expenditure or contribution made by Operator towards employes' stock purchase plan, group life insurance, pension, retirement, or bonus, other than such expenditures or contributions imposed or assessed by governmental authority.

II. BASIS OF CHARGES TO JOINT ACCOUNT

(1) Outside Purchases: All materials and equipment purchased and all service procured from outside sources shall be charged at their actual cost to Operator, after deducting any and all trade and/or cash discounts actually allowed off invoices, or received by Operator.

(2) New materials furnished by Operator (Condition "A"):

New materials transferred to the joint property from Operator's warehouse or other properties shall

be priced f.o.b. the nearest supply store or railway receiving point at replacement cost of the same kind of materials. This will include large equipment such as tanks, rigs, pumps, boilers and engines. All tubular goods (2″ and over) shall be charged on the basis of mill shipment or carload price. Other materials, where the replacement cost cannot be readily ascertained, may, for the purposes of consistency and convenience, be charged on the basis of a reputable supply company's preferential list price f.o.b. nearest supply store or railway receiving point to the joint property prevailing on the date of transfer of the materials to the joint property.

In determining the value of any transferred materials, all special and preferential discounts shall be allowed but the regular cash discount shall not be considered.

(3) Secondhand materials furnished by Operator (Conditions "B" and "C"):

(a) Tubular goods (2″ and over), fittings, machinery and other equipment which is in sound and serviceable condition at date of transfer, will be classed as condition "B" and charged at 75% of the price of new materials, in accordance with the provisions of Paragraph (2) above.

(b) Tanks, derricks, and buildings or other equipment involving erection costs shall be charged on a basis not to exceed 75% of knocked-down new price for similar materials.

(c) Other secondhand materials, such as units of machinery or other equipment that is serviceable, but substantially not good enough to be considered first-class secondhand material when

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transferred to the joint property, shall be classed as condition "C" and charged at 50% of the new price.

(d) There may also be cases where some items of equipment, due to their unusual condition, should be fairly and equitably priced by Operator.

(4) Warranty of Materials Furnished by Operator: Operator does not warrant the materials furnished from its warehouse or any other properties beyond or back of the dealer's or manufacturer's guaranty, and in case of defective materials, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

(5) If materials required are not available in Operator's surplus stocks, Operator shall, whenever in its judgment it is practical to do so, give Non-operator opportunity of furnishing the materials required in proportion to his or its interest, provided that the same can be furnished at the time such materials are required, and further provided that any such materials so furnished shall be in condition acceptable to Operator and shall be charged to the joint account on the same terms and conditions as are provided herein to cover the furnishing of materials by Operator.

(6) Operator's Exclusively-owned Facilities: The following rates shall apply to service rendered to the joint property by facilities owned exclusively by Operator:

(a) Water service, gas, teaming, power, and compressor service: All at rates currently prevailing in the field where the joint property is located.

(b) Automotive Equipment: Rates commensurate with cost of ownership and operation and in line with schedule of rates adopted by the Petroleum Motor Transport Association as recommended uniform standardized charges against the joint account. Automotive charges will be based on use in actual service on or in connection with the joint property. Truck, tractor and pulling unit rates shall include wages and expenses of driver.

(c) A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully-owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation and the service furnished the joint property. Provided, however, that such charges shall not exceed those currently prevailing in the field where the joint property is located.

(d) Whenever requested, Operator shall inform Nonoperator in advance of the rates it proposes to charge.

(e) Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

III. DISPOSAL OF LEASE EQUIPMENT AND MATERIALS

(1) Materials purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the materials are removed from the joint property.

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(2) Materials purchased by Non-operator shall be invoiced by Operator and paid for by Non-operator to Operator immediately following receipt of invoice and delivery of materials. Operator shall thereupon immediately pass credit to the joint account and include the same in the monthly statement of operations for the month in which the materials were paid for by Non-operator.

(3) Division of materials in kind, if made between Operator and Non-operator, shall be in proportion to their respective interests in the joint property. Each party will thereupon be charged individually with the value of the materials received or receivable and corresponding credits will be made to the joint account by Operator, and both credits shall appear in the same monthly operating statement.

(4) Sales to outsiders of major materials shall be made only with the consent of Non-operator as to both terms and price and where made the proceeds shall be credited by Operator to the joint account at the full amount collected from vendee. Any claims by vendee for defective materials or otherwise shall be charged back to the joint account, if and when paid by Operator.

IV. BASIS OF PRICING MATERIALS TRANSFERRED FROM JOINT ACCOUNT

Materials and equipment purchased by either Operator or Non-operator, or divided in kind between them, unless otherwise agreed, shall be valued on the following basis of condition and price: (New price as used in the following paragraphs shall have the same meaning and application as that used above in Section II: "Basis of Charges to Joint Account.")

(1) New Materials: (Condition "A") being new equipment or supplies purchased or procured for the joint property but never used thereon; at 100% of current new prices.

(2) Good Secondhand Materials: (Condition "B") being good serviceable materials which are further usable without repair, at:

(a) 75% of current new prices, if materials were new when originally charged to the joint property.

(b) 75% of current new prices less depreciation consistent with their usage on and service to the joint property, if materials were originally charged to the joint property as secondhand at 75% of new prices.

(3) Other Used Materials: (Condition "C") being materials further usable for their original function only after repair and reconditioning: at 50% of current new prices.

(4) Bad Order Materials: (Condition "D") being materials not further usable for their original function but for possible other service: at 25% of current new prices.

(5) Junk: (Condition "E") being obsolete and unserviceable materials: at prevailing junk prices in the district. Where practicable, junk should be disposed of at the joint property.

(6) Temporarily Used Materials: When the use of certain items of equipment on the joint property has been only temporary, and the time of actual use thereon does not justify the deduction of depreciation as listed

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in (a) and (b) of Paragraph (2) hereof, such materials will be priced on a basis that will leave a net charge against the joint account consistent with the service rendered and adequate for the time the materials were in use.

V. INVENTORIES

(1) Periodic inventories shall be taken by Operator of the materials and equipment on the joint property, which shall include such materials and equipment as are ordinarily considered controllable by operators of oil and gas properties.

(2) Notice of intention to take inventory shall be given by Operator to Non-operator a week before any inventory is to begin, so that Non-operator may be represented when any inventory is being taken.

(3) Special inventories shall be taken whenever there is any sale or change of interest in the joint property, and it shall be the duty of the party selling to notify the other party as quickly as possible after the transfer of interest takes place. In such cases both the seller and the purchaser shall be represented and shall be governed by the joint inventory.

(4) If the initial test on the joint property is a dry hole and no further tests thereon are immediately contemplated, Non-operator may require that an inventory be taken of all materials as soon as the casing has been recovered from the well and that the materials be classified before any materials are removed from the joint property by Operator or otherwise disposed of.

(5) Failure of Non-operator to be represented at the physical inventory shall bind it to accept the inven-

tory taken by Operator who shall in that event furnish Non-operator with a copy thereof.

(6) Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-operator.

(7) Inventory adjustments shall be made by Operator on the joint account for overages and shortages, but Operator shall only be held accountable to Non-operator for shortages due to lack of reasonable diligence.

[7862]

EXHIBIT 1 (d)

REPUBLIC CONTRACT

THIS AGREEMENT entered into as of this 22nd day of December, 1949, between REPUBLIC SUPPLY COMPANY, a Delaware corporation with offices in the Kerr-McGee Building, Oklahoma City, Oklahoma, hereinafter called "Republic", and PHILLIPS PETROLEUM COMPANY, a Delaware corporation with an office in Bartlesville, Oklahoma, hereinafter called "Phillips",

WITNESSETH:

WHEREAS, Phillips and Kermac Corporation (now Republic) entered into a certain Contract dated April 19, 1948, providing for sale of tubular goods and other supplies by Republic to Phillips and application of one-half (1/2) of the gross profit therefrom to payment of that portion of Republic's B loan from The First National Bank of Chicago described therein secured by note guaranteed by

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Phillips in the amount of Four Million One Hundred Twenty-five Thousand Dollars ($4,125,000.); and

WHEREAS, Tascosa Gas Company, pursuant to contracts of even date herewith between that company and Phillips, has reecived assignments of certain properties from Phillips and has borrowed Seven Million One Hundred Twenty-eight Thousand Dollars ($7,128,000.), out of which it has loaned to Republic Four Million One Hundred Twenty-five Thousand Dollars ($4,125,000.) to repay the aforesaid portion of the B loan in that amount; and

WHEREAS, Republic has repaid the aforesaid Four Million One Hundred Twenty-five Thousand Dollar ($4,125,000.) portion of said B loan, with all interest thereon, and, concurrently with the execution of this agreement, is furnishing to Phillips satisfactory evidence of such repayment together with suitable releases releasing Phillips from any and all further liability to repay any part thereof and has procured all necessary modifications of its said agreement with the bank to permit the payment by it to Tascosa of one-half (1/2) of its gross profits on sales to Phillips as hereinafter provided without regard to the limitations and prohibitions which may be contained in said loan agreement;

NOW, THEREFORE, in consideration of the foregoing, it is hereby mutually agreed that:

1. During the calendar year 1950 and each year thereafter until January 1, 1970, or until Tascosa Gas Company's said assigned properties shall have "paid out", as that term is defined in the Agreement between Tascosa Gas Company and Phillips of even date herewith, whichever is the later date, Republic will sell and deliver to Phillips such quantities of oil field tubular goods as Phillips may from time to time elect to purchase from Republic by notice in

writing forwarded to Republic at least ninety (90) days in advance of the first day of the calendar quarter in which such tubular goods are to be delivered, except that such notice may be given on or before January 6, 1950, for the first two calendar quarters of 1950, up to the following maximum quantities:

Republic Steel Corporation Electric Weld Casing and/or Tubing	4,000 Tons
Republic Steel Corporation Electric Weld or Continuous Weld Line Pipe	3,000 Tons
Spang-Chalfant Seamless Casing and/or Tubing and/or Drill Pipe	2,000 Tons

provided, however, that from and after April 1, 1953, Republic shall not be required to deliver to Phillips, in any one calendar quarter, more than eighteen per cent (18%) of Republic's total available supply of tubular goods for such calendar quarter. Nevertheless, Republic will after April 1, 1953, use due diligence in endeavoring to obtain adequate supplies of tubular goods in order that it may fill all of Phillips' orders up to the aforesaid maximum quantities, but shall not be liable in the event, after use of such due diligence, it is unable to do so. The

[7863]

total quantity of tubular goods which Phillips may elect to purchase in any one year will, as nearly as practicable, be supplied by Republic and accepted by Phillips in equal calendar quarterly quantities during each year. Within the limits of the sizes and specifications of tubular goods which the respective steel companies are willing and able to manufacture according to their respective published handbooks and pamphlets, as issued from time to time, the

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sizes and specifications of tubular goods to be supplied hereunder will be as ordered by Phillips; provided, however, at least fifty per cent (50%) of Phillips' annual orders of Republic electric weld oil country casing and tubing shall be in casing of sizes eight and five-eights (8-5/8) inch O.D. and larger and not more than twenty per cent (20%) of such annual orders shall be of Republic electric weld oil country tubing.

2. The prices for all tubular goods delivered hereunder direct from the mills in carload lots shall be the prices in effect at time of shipment for carload direct shipments as published by the steel company making the shipment. Prices for all tubular goods delivered from Republic's field store stocks shall be the prices at time of delivery applicable to deliveries from field store stocks as published by the steel company which manufactured such goods, or, if it has no published prices, then as per its established suggested prices.

3. During the calendar year 1950 and each year thereafter until January 1, 1970, or until Tascosa Gas Company's said assigned properties shall have "paid out", as that term is defined in the Agreement between Tascosa Gas Company and Phillips of even date herewith, whichever is the later date, Republic will sell and deliver to Phillips all oil field supplies handled by Republic and available, other than tubular goods, which Phillips desires to purchase from Republic. The prices to be paid by Phillips for such supplies shall be the best prices obtainable by Phillips from other suppliers for the same products delivered in the same manner (i. e., out of stock or direct from mill in carload lots, or on a commission or brokerage basis, or such other conditions in respect to delivery as may have a bearing upon the price); provided, however, Republic shall not be obligated to sell any product at a price which will return

it a profit of less than two per cent (2%) over and above all of its costs and expenses incurred in respect of any such sale, excluding, however, income taxes, overhead, and other indirect expenses.

4. Republic will pay to Tascosa Gas Company, on or before the twentieth of each month, an amount equal to one-half (1/2) of the gross profit derived by Republic from sales to Phillips of tubular goods and other supplies during each preceding calendar month expiring prior to January 1, 1970, or prior to the date Tascosa Gas Company's said assigned properties shall have "paid out", as that term is defined in the Agreement between Tascosa Gas Company and Phillips of even date herewith, whichever is the later date, the first sums so received from Republic to be applied by Tascosa to the payment of Tascosa's loan of $4,125,000 to Republic, which loan is evidenced by a debenture of even date herewith and/or other evidence of indebtedness issued by Republic in favor of Tascosa. The term "gross profit", as used herein, shall be deemed to mean the difference between the net prices paid to Republic (less any sales taxes paid by Republic) for such tubular goods or other supplies and the cost thereof to Republic (including transportation costs, if any, paid by Republic), or, in cases where such tubular goods or other supplies are not purchased and resold by Republic but are handled on a commission and/or "markup" basis, the commission and/or "markup" of Republic with respect to such transaction.

5. Republic will keep books and records adequate to reflect the gross profits received by it on tubular goods and other supplies sold to Phillips and will furnish Phillips with monthly statements indicating the sales made to it, profits derived and sums paid to Tascosa Gas Company pursuant to the provisions of this agreement. Phillips shall have the right at all times during reasonable business hours

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to examine all books and records of Republic pertinent to the performance of this contract.

6. The parties hereto shall not be responsible for delays in performing or failures to perform obligations hereunder which are caused by strikes, walkouts or labor troubles or by floods, storms, fires or other acts of God, riots, wars or the provisions of applicable state or federal laws and of rules and regulations of agents, agencies and instrumentalities of federal, state or local governments or other causes beyond the control of such party, and any such delay or failure shall not, to the extent that it is occasioned by any of the foregoing, be deemed to be a default hereunder or a breach of this agreement. Any party relying upon the provisions of this paragraph to excuse performance hereunder shall immediately

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notify the other party hereto of the happening of the event relied upon and shall also immediately notify the other party upon the cessation of the occurrence so interfering with its performance.

7. The terms, covenants and provisions hereof shall extend to and be binding upon the parties hereto and their respective successors in interest. In the event Republic shall be liquidated or dissolved other than by proceedings in or in connection with bankruptcy or insolvency or shall voluntarily dispose of substantially all of its assets prior to the date upon which Tascosa Gas Company shall have fully repaid the above described Seven Million One Hundred Twenty-eight Thousand Dollar ($7,128,000.) loan, with all interest thereon, Republic will, if payments from Republic to Tascosa Gas Company hereunder shall have averaged Ten Thousand Dollars ($10,000.) per month, or if such

payments from Republic to Tascosa Gas Company hereunder would have so averaged Ten Thousand Dollars ($10,000.) per month but for Republic's inability to make deliveries of tubular goods or other supplies hereunder for any reason not occasioned by Phillips regardless of whether or not Republic shall have exercised due diligence in an effort to make such deliveries, either furnish evidence satisfactory to Phillips that the performance of this contract will be continued in accordance with its terms or will secure the repayment at that time of the unpaid balance of said loan; provided that if during any period orders from Phillips to Republic or deliveries by Republic to Phillips are prevented by any of the reasons stated in Section 6 above to the extent that the monthly average payments for that period are less than Ten Thousand Dollars ($10,000.), then such period and the payments made during such period shall be excluded in determining the monthly average first above referred to. Should such payments not have averaged Ten Thousand Dollars ($10,000.) per month and their failure so to do was not due to Republic's inability to make deliveries as aforesaid, then Republic, in such case, shall not be required to assure the continued performance hereof by its successor in interest but Republic shall be relieved of further obligation under this section.

8. This agreement supersedes and replaces the aforesaid agreement of April 19, 1948, which Agreement is hereby terminated.

EXECUTED as of the day and year first above written.

REPUBLIC SUPPLY COMPANY

By /s/ D. A. McGee
Chairman of the Board

PHILLIPS PETROLEUM COMPANY

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By /s/ C. O. Stark
Vice President

ATTEST:

/s/ Dean Terrill (Seal)
Assistant Secretary

ATTEST: (Seal)

/s/ Paul J. Parker
Assistant Secretary

[7865]

EXHIBIT 1 (e)

December 22, 1949

Phillips Petroleum Company
Bartlesville, Oklahoma

Gentlemen:

This is to advise you that we have this day received payment of the principal and interest evidenced by that certain Note dated April 19, 1948, executed by Republic Supply Company (previously known as Kermac Corporation) in the principal sum of $4,125,000, payable to the order of this Bank, due five years after date, issued pursuant to the terms and provisions of the Loan Agreement dated April 16, 1948, entered into between Republic Supply Company, the Bank, et al., said Note being guaranteed as to payment by Phillips Petroleum Company. Said Note has been paid and cancelled and has been returned to Republic Supply Company and your guarantee as to payment of said Note has been fully cancelled and discharged. We therefore advise you that Phillips Petroleum Company has been relieved and released as to any further obligation

or liability with respect to such guarantee.

Yours very truly,

THE FIRST NATIONAL BANK OF CHICAGO

By /s/ G. M. Forgan
Assistant Vice President

[7866]

EXHIBIT 1 (f)

1-6 12/21/49

MODIFICATION OF LOAN AGREEMENT

WHEREAS, under date of April 16, 1948 REPUBLIC SUPPLY COMPANY, a Delaware corporation (formerly known as "Kermac Corporation" and hereinafter called "Republic") entered into a certain Loan Agreement with THE FIRST NATIONAL BANK OF CHICAGO (hereinafter called the "Bank"), KERR-McGEE OIL INDUSTRIES, INC. (hereinafter called "Kerr-McGee"), and PHILLIPS PETROLEUM COMPANY (hereinafter called "Phillips") providing for the making of a loan by Bank to Republic, subject to the terms and conditions of said Loan Agreement, divided into two parts and known as the "A" Loan in the principal sum of Six Million Dollars ($6,000,000.00) and the "B" Loan in the principal sum of Five Million Five Hundred Thousand Dollars ($5,500,000.00), said "A" Loan being evidenced by one note of Republic in the sum of Six Million Dollars ($6,000,000.00) and said "B" Loan being evidenced by two notes executed

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by Republic, each dated April 19, 1948, one of said notes being in the sum of One Million Three Hundred Seventy Five Thousand Dollars ($1,375,000.00) and guaranteed as to payment by Kerr-McGee, and the other of said notes being in the principal sum of Four Million One Hundred Twenty Five Thousand Dollars ($4,125,000.00) guaranteed as to payment by Phillips, each of said "B" Loan notes being due and payable to the order of the Bank five (5) years after date; and

WHEREAS, the principal of said note in the sum of $4,125,000.00 has concurrently herewith been fully paid and discharged out of part of the proceeds of a loan made on the 22d day of December, 1949 by Bank and THE PRUDENTIAL INSURANCE COMPANY OF AMERICA to TASCOSA GAS COMPANY (hereinafter called "Tascosa") (the accrued interest thereon to date of payment having been paid by Republic) which Tascosa has in turn loaned to Republic pursuant to the terms and provisions of a Loan Agreement dated December 22, 1949 entered into between Tascosa, the Bank and The Prudential

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Insurance Company of America, and pursuant to the terms and provisions of the Agreement bearing even date with said Loan Agreement and referred to therein, and Phillips has been released and discharged from its guaranty of the payment of said note; and

WHEREAS, Republic, in consideration of and to evidence such loan, has concurrently herewith executed and

delivered to Tascosa its certain Obligation or other evidence of indebtedness dated December 22, 1949 in the sum of Four Million One Hundred Twenty Five Thousand Dollars ($4,125,000.00) payable solely out of 1/2 of the gross profit derived by Republic from sales to Phillips of tubular goods and other supplies pursuant to the provisions of that certain contract (designated the Republic Contract) dated December 22, 1949 entered into between Republic and Phillips; and

WHEREAS, it is the desire of the parties hereto that said Loan Agreement dated April 16, 1948 entered into between Republic, the Bank, et al, be modified as hereinafter stated:

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration to each of the parties hereto, receipt of which is hereby acknowledged by each of the parties hereto, it is covenanted and agreed by each of the parties hereto

(1) Said Loan Agreement dated April 16, 1948 entered into by and between Republic, the Bank and others above referred to shall be and the same is hereby modified and amended by deleting and striking therefrom all provisions referring or pertaining to said "B" Loan note therein described in the principal sum of $4,125,000.00 which note has been paid and cancelled concurrently herewith and the guaranty by Phillips of the payment thereof released, discharged and cancelled, provided, however, that the terms and provisions of said Loan Agreement applicable to the aforesaid "A" Loan note and the "B" Loan note re-

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maining unpaid shall remain in full force and effect until all such remaining indebtedness of Republic to the Bank issued under said Loan Agreement shall have been fully paid and discharged.

[7868]

(2) Said Loan Agreement as herein amended shall be subject to the Republic Contract above mentioned and the Bank shall not interfere with, hinder or prevent Republic from carrying out its obligations and agreements under the terms and provisions of the said Republic Contract and the Obligation or other evidence of indebtedness issued by Republic to Tascosa payable as above mentioned by virtue of the Bank's owning and holding the balance of the indebtedness of Republic to the Bank described in said Loan Agreement or by virtue of any of the terms and provisions of said Loan Agreement.

It is further covenanted and agreed that all of the terms, covenants and provisions of this Agreement shall be binding upon and shall inure to the benefit of the respective successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Agreement this 22d day of December, 1949.

REPUBLIC SUPPLY COMPANY

By D. A. McGEE
Chairman of the Board

KERR-McGEE OIL INDUSTRIES, INC.

By D. A. McGEE
Vice-President

THE FIRST NATIONAL BANK
OF CHICAGO

By G. M. FORGAN
Ass't Vice-President

ATTEST:

DEAN TERRILL
Ass't Secretary

ATTEST:

DEAN TERRILL
Ass't Secretary

[7869]

Exhibit No. 61

[Note: Columns 2, 4, 5, 6, 7, and 8 of this exhibit were rejected by the Examiner at record 2182 and not received in evidence. An offer of proof was made on page 2183 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.]

MICHIGAN-WISCONSIN PIPE LINE COMPANY
ACTUAL SALES 1950
ESTIMATED SALES YEAR ENDING 3/31/52

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MICHIGAN-WISCONSIN PIPE LINE COMPANY
ACTUAL SALES 1950
ESTIMATED SALES YEAR ENDING 3/31/52

	1950			Estimated Year Ending 3/31/52			
	Revenue	Mcf Purchased	Average Revenue Per Mcf	Mcf Purchased	Revenue Present Rate	Revenue Proposed Rate	Increase under Proposed Rate
Milwaukee Gas Light Co.	$ 3,112,580	11,042,435	28.187c	19,449,231	$ 5,445,783	$ 6,126,508	$ 680,725
Wisconsin Natural Gas Co.	776,066	2,759,081	28.130c	6,722,700	1,882,356	2,117,651	235,295
Madison Gas & Elec. Co.	281,363	997,530	28.206	1,271,047	355,893	400,380	44,487
Wisconsin Public Service Corp.	214,730	766,893	28.000	3,701,514	1,036,423	1,165,978	129,555
Wisconsin Power & Light Co.	204,942	728,925	28.120	2,016,503	564,621	635,197	70,576
Wisconsin Fuel & Light Co.	32,241	115,146	28.000	1,218,800	341,264	383,925	42,661
Wisconsin-Michigan Power Co.	28,393	101,402	28.00	567,762	158,974	178,845	19,871
Stoughton Light & Fuel Co.	11,361	40,459	28.08	68,730	19,244	21,652	2,408
Total Wisconsin	$ 4,677,464	16,608,496	28.160c	35,016,287	$ 9,804,558	$11,030,136	$1,225,578
Grand Total	$16,642,771	59,027,543	28.195c	107,764,147	$30,173,960	$33,945,715	$3,771,755

1157

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[7870]

Exhibit No. 62

19-A and 21-A GOLDSMITH
WLG:eo

CASINGHEAD GAS CONTRACT

THIS CONTRACT entered into this 28th day of July, 1950 between STANOLIND OIL AND GAS COMPANY and THE ATLANTIC REFINING COMPANY, "Seller", and PHILLIPS PETROLEUM COMPANY, "Buyer":

Seller agrees to sell to Buyer and Buyer agrees to purchase from Seller casinghead gas produced from wells now or hereafter located on the following described land in ECTOR County, State of TEXAS, to wit:

#46939—SCHARBAUER "R" LEASE

NW/4 Section 29, Township 1 North. Block 44,
T&P Ry. Co. Survey

#46934—H. E. CUMMINS "E" LEASE

SE/4 SE/4 Section 34, Township 1 North, Block 45,
T&P Ry. Co. Survey

1. DELIVERY AND TRANSFER OF TITLE—The gas shall be delivered at the casingheads of the wells or at any other point or points of separation of oil and gas. Upon delivery, title to the gas and all components thereof shall pass to and vest in Buyer without regard to the purposes for which it may thereafter be sold or used by Buyer. As said premises are being operated primarily for the production of oil, Seller may use any method therefor, and the taking of

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casinghead gas by Buyer shall be subservient to said oil operations.

2. DELIVERY DATE—Delivery of the gas shall begin the first day of the month of the execution of this contract, and failure by Buyer to accept delivery by said date shall obligate Buyer to pay, as full consideration for the volumes of gas (determined by estimate or measurement) thereafter produced and not taken by Buyer, the "Rate in Cents Per Thousand Cubic Feet" shown in the attached TABLE II applicable to the test gasoline content of the gas produced. After the commencement of actual taking of gas, Buyer's obligation to take and pay for gas produced shall be determined by the provisions of Paragraph 3 hereof. In the event Buyer fails to accept deliveries of gas within six (6) months from the aforesaid delivery date, either party may cancel this contract at any time thereafter upon 10 days' written notice to the other unless Buyer commences taking gas within said 10 day period.

3. TAKES—After the commencement of actual taking of gas Buyer agrees to take all gas testing more than three-fourths gallon of gasoline per thousand cubic feet. However, it is understood that Buyer may process the gas delivered in a plant or plants and that gas produced from other properties may also be processed in any such plant, and in the event Buyer's plant or gathering system is of insufficient capacity to gather and process all of the gas connected thereto, Buyer shall be obligated only to take gas ratably from all leases delivering casinghead gas to the gathering system into which Seller's gas is delivered. Buyer shall have the option of taking such quantity of gas testing three-fourths gallon of gasoline or less per thousand cubic feet as it may from time to time elect. Seller shall have the right to dispose of any gas not taken or paid for

by Buyer, subject to Buyer's right to take such gas at any subsequent time. In the event the gas from any well or wells is or becomes insufficient in pressure, volume or gasoline content or for any other reason is or becomes unprofitable, in the judgment of Buyer, Buyer shall have the right to refuse or cease taking the gas from any such well or wells so long as such condition exists or may terminate this contract upon 30 days' notice in writing to Seller.

4. MEASUREMENT—The casinghead gas delivered hereunder shall be measured by an orifice meter or meters of standard make to be furnished, installed and kept in repair by Buyer on the land herein described and all volumes of such gas shall be computed to a standard cubic foot at a pressure base of 14.65 pounds per square inch absolute and at a temperature base of 60 degrees Fahrenheit. In making such measurements, the flowing temperature of the gas and the variable factors necessary to calculate the metered volumes in accordance with the Ideal Gas Laws and the variable factors to correct for deviation from the Ideal Gas Laws shall be in accordance with rules, regulations and determinations of the Railroad Commission of Texas. The specific gravity shall be determined quarterly by the balance method. Said meter shall be open to inspection by Seller in the presence of Buyer. Buyer shall test said meter quarterly for accuracy of measurement. In case any question arises as to the accuracy of the meter measurement, said meter shall be tested upon the demand of either party. A registration within 3 percent of correct shall be considered correct. The volume delivered during any period of inoperation of the meter or of inaccurate measurement shall be determined by multiplying the number of barrels of oil produced during such period, from the wells connected to the meter, by the average volume of gas delivered hereunder per barrel of oil produced during the

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30 day period prior to the last test of the meter reflecting accurate measurement.

5. GAS FOR LEASE OPERATION—On demand of Seller, Buyer shall deliver to Seller for use on any one or more of the leases covered by this contract that volume of raw or processed gas required for development and operation of such leases. This volume shall not exceed in the aggregate that volume of gas determined by multiplying the volume of raw gas produced and delivered during the settlement period from each lease by the applicable "Per Cent" figure in TABLE I. Delivery shall be made to the leases designated by Seller and to the boundary line of each of such leases nearest Buyer's source of supply. Buyer shall be under no obligation to deliver such gas at a gauge pressure in excess of 15 pounds per square inch. In the event Buyer delivers and Seller accepts gas in excess of the volume of gas which Seller is entitled to have delivered for lease development and operation, Seller shall pay Buyer for such excess gas delivered during any calendar month (the volume determined by estimate or measurement) at a rate of 3,1265¢ per thousand cubic feet. In the event the volume of gas which Seller is entitled to have delivered for lease development and operation is insufficient for such purposes, Seller reserves the right to use raw gas sufficient in quantity to make up such deficiency.

6. TEST GASOLINE CONTENT—Quarterly, Buyer shall make a physical field test of the gas delivered hereunder and determine thereby the test gasoline content of the gas per thousand cubic feet which is to be used during the succeeding quarterly period in the computations under Paragraphs 2, 3, 5 and 7. Such physical field tests shall be made by a field charcoal adsorption test, or at Seller's option by a field compression test, in accordance with Testing Code 101-43 adopted by the American Gas Association and

the Natural Gasoline Association of America. Buyer shall notify Seller in writing of the date of taking the quarterly tests at least 10 days prior thereto. Seller may witness the tests or make joint tests with its own appliances. The volume of gas used in making the test shall be computed to a base pressure of 14.65 pounds per square inch absolute and to a temperature base of 60 degrees Fahrenheit in computing the test gasoline content per thousand cubic feet.

7. PRICE—As full consideration for the gas and all components thereof purchased by Buyer hereunder, Buyer shall pay Seller a price which shall be the sum of the computations prescribed in A and B below:

A. Multiply the volume of gas delivered by the applicable "Rate In Cents Per Thousand Cubic Feet" shown in TABLE II as increased in accordance with the provisions of (1), (2) and (3) below.

(1) In the event the total test gasoline content of all of the gas processed in Buyer's plant during the month equals or exceeds a daily average of 10,000 test gallons, the applicable "Rate In Cents Per Thousand Cubic Feet", shown in TABLE II, shall be increased in accordance with the following schedule:

Daily Average Gallons of Test Gasoline Content of All Gas Processed in the Plant During the Month	*Percentage of Increase*
10,000 but less than 20,000	10%
20,000 but less than 30,000	20%
30,000 but less than 40,000	30%
40,000 and more	40%

(2) In the event the gas delivered during any month at an average daily gauge pressure exceeding 50

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pounds per square inch, as indicated by the static pressure on the meter chart, add an additional .1340¢ to the applicable "Rate In Cents Per Thousand Cubic Feet" shown in TABLE II.

[7871]

(3) In the event the weighted average of the daily A.P.I. gravities of all raw unfractionated gasoline manufactured during the settlement period at the plant in which the gas purchased hereunder is processed exceeds 93, the applicable "Rate In Cents Per Thousand Cubic Feet" shown in TABLE II shall be increased by the answer obtained by multiplying the "Price of Gasoline in Cents Per Gallon", determined as provided in the Note to TABLE II, by the test gasoline content per thousand cubic feet of the gas delivered hereunder times one-half of one per cent for each full degree that such weighted average A. P. I. gravity exceeds 93 (and a proportionate additional amount for any fractional part of a degree). The arithmetic average of the gravities of all such gasoline produced during any twenty-four hour day shall be deemed the gravity of all such gasoline manufactured during such day. A.P.I. gravity shall be as defined by U. S. Department of Commerce, Bureau of Standards Circular C-410.

The A.P.I. gravity of the raw unfractionated gasoline manufactured at such plant shall be determined by a recording gravitometer, the accuracy of which shall be checked at least once each month. Seller shall be entitled to be present at such tests and, upon written request to Buyer, shall be notified when such tests will be made. A recording within five-tenths of one degree of the correct A.P.I. gravity shall be considered correct. Settlement for any period of inoperation or of

inaccurate recording shall be in accordance with the average readings taken during the last preceding 5 days when the gravitometer was recording accurately and the first 5 days after the gravitometer was restored to accuracy.

B. Multiply the volume of gas sold allocable to Seller by one-half of the first 2.6798¢ or less of the weighted average price per thousand cubic feet during the month preceding that for which settlement is to be made and by two-thirds of the amount by which said weighted average price exceeded 2.6798¢.

8. DEFINITIONS—The term "casinghead gas" means gas issuing from oil wells, produced from the same sand or strata from which the oil is produced or as the result of the induction of gas by any method for facilitating or increasing the production of the oil, and gas vaporized from oil after production.

The phrase "weighted average price per thousand cubic feet" shall mean the weighted average price received by Buyer and its subsidiaries for all gas connected to Buyer's plant which was sold either prior to processing or after discharge in the form of gas from the equipment at the plant used for the manufacture of raw unfractionated gasoline, adjusted as hereinafter provided. Any amount received from the purchaser for transportation, purification, dehydration or compression prior to delivery shall be deemed to be a part of the price received by Buyer. If any of the gas so sold is compressed (either before or after being processed in Buyer's plant) and delivered at an average gauge pressure in excess of 50 pounds per square inch, there shall be deducted from the price received from such sale .1786¢ per thousand cubic feet for each 25 pounds or fraction thereof of the excess between the foregoing speci-

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fied average gauge pressure and the lesser of either the delivery pressure or 200 pounds per square inch and, if the delivery pressure exceeds 200 pounds per square inch, an additional .1786¢ per thousand cubic feet for each 100 pounds or fraction thereof of the excess between 200 pounds per square inch and the delivery pressure. If any of the gas so sold is purified prior to its delivery there shall be deducted from the price received from such sale 2.0545¢ per thousand cubic feet when the daily average volume of all gas purified during the month is less than 5,597,000 cubic feet, 1.3399¢ per thousand cubic feet when the daily average of all gas purified during the month equals or exceeds 5,597,000 cubic feet but is less than 22,389,000 cubic feet and .9826¢ per thousand cubic feet when the daily average volume of all gas purified during the month equals or exceeds 22,389,000 cubic feet. From the price received from the sale of any such gas which is dehydrated prior to its delivery there shall be deducted .1340¢ per thousand cubic feet. In the event Buyer transports the gas from the plant to the point of delivery to the purchaser, there shall also be deducted from the price per thousand cubic feet received from such sale the reasonable cost, including return on depreciated investment, of such transportation.

Weighting shall be limited to volume and price only. In computing said weighted average price the volume of gas shall be converted to the basis of measurement provided in Paragraph 4.

The term "subsidiaries" shall mean corporations of whose voting stock Buyer owns more than 50 per cent.

The volume of gas (determined by estimate or measurement) that was delivered to Seller for lease operation shall be deducted from the volume which Seller was entitled to have delivered for such purpose. The volume re-

maining shall be the numerator of a fraction, the denominator of which shall be the total of the volumes so remaining from all gas delivered to Buyer's plant, determined in the same manner. The "volume of gas sold allocable to Seller", as used in this contract, shall be determined by multiplying the above fraction by the total volume of the gas connected to Buyer's plant which was sold, during the month for which settlement is made, either prior to processing or after discharge in the form of gas from the equipment at the plant used for the manufacture of raw unfractionated gasoline.

Any use by Buyer or its subsidiaries of processed gas or of unprocessed gas taken into the gathering system connected to the plant, except that required for operation of Buyer's plant and other facilities used in connection with gathering the gas or processing the raw unfractionated gasoline, and except that delivered for development and operation of Buyer's leases furnishing gas to the plant (the last excepted volume not to exceed the volume which Buyer would be entitled to have delivered for such purposes determined by the method prescribed in Paragraph 5 hereof), shall be deemed to be a sale of such gas. For the purpose of accounting hereunder the gas deemed so sold shall be priced at the weighted average price per thousand cubic feet during the month preceding that for which settlement is made or at the rate of 3.1265¢ per thousand cubic feet, whichever is higher.

The term "plant", as used in this contract, is defined to be all equipment located in one yard used by Buyer for the manufacture of raw unfractionated gasoline. Equipment used by Buyer for fractionating the raw unfractionated gasoline shall not be considered a part of Buyer's plant. In the event Buyer has no equipment for distilling the raw unfractionated gasoline from the absorption oil

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in the same plant yard with its absorption equipment, the equipment in such plant yard, including the absorbers, shall nevertheless constitute a "plant" for all purposes of this contract except payment under subdivision A (3) of Paragraph 7. For payment under this subdivision where the raw unfractionated gasoline from more than one plant as above defined is distilled in the same equipment the gravity of the combined raw unfractionated gasoline shall be used. In the event the gas delivered hereunder is processed in more than one plant Buyer shall allocate such gas to each plant in the proportion that each plant receives gas from the common source.

9. PAYMENT—Payment for all gas delivered each month shall be made not later than the last day of the succeeding month. A statement showing the volume of gas purchased and the price computations under Paragarph 7 shall be transmitted monthly to Seller with the exception that, in respect of the weighted average price per thousand cubic feet, only the result of the computation need be shown. Seller shall have the right to examine the books and records of Buyer which pertain to the basis of payment for gas hereunder at Buyer's office at Bartlesville, Oklahoma during regular office hours. Buyer need not preserve the books and records pertaining to payment for gas purchased during any month for longer than 2 years after payment therefor has been tendered.

10. TITLE—Seller warrants the title to the gas. Upon request Seller shall furnish Buyer abstracts of title and Buyer shall not be required to make payment until Seller shall have furnished such abstracts covering the land described showing good and merchantable title to the gas. If Seller's title is questioned, or involved in litigation, Buyer shall have the right to withhold payment without interest during the pendency of such litigation, or until said title

is freed from such question, or until Seller furnishes bond conditioned to save Buyer harmless with surety acceptable to Buyer. Without impairment of Seller's warranty of title, it is agreed that if Seller owns less than the full fee simple title to the gas delivered hereunder, the payments provided for herein shall be made only in the proportion that Seller's interest bears to the entire fee simple title of the gas.

ROYALTY—For the account and on behalf of Seller, Buyer agrees to disburse such royalties, overriding royalties, bonus payments and production payments, as Seller shall from time to time direct, accruing from the production and sale of gas hereunder. Buyer shall deduct such payments from the amounts due Seller hereunder. Seller agrees to indemnify and hold Buyer harmless from loss and damages resulting from payments made pursuant to Seller's directions.

12. RIGHT OF WAY—Insofar as Seller's lease permits, Buyer is granted the right to lay and maintain lines and install any equipment on the land described necessary in connection with the purchase of Seller's gas and shall have the right of free entry thereon during the term of this contract. All lines and other equipment placed by Buyer on said land shall remain the property of Buyer and may be removed by Buyer at any time.

13. LAWS AND REGULATIONS—This contract shall be subject to all valid statutes and rules and regulations of any duly constituted federal or state regulatory body having jurisdiction.

14. FORCE MAJEURE—Neither party shall be liable for failure of performance due to labor controversies, fires, strikes, floods, lack of water, winds, lightning, accidents, or any other circumstances beyond the control of the party failing to perform whether of a similar or dissimilar nature.

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15. TERM—This contract shall remain in effect for the life of the oil and gas lease covering the land described or any extensions or renewals thereof; provided, that either party shall have the right to terminate this contract at the expiration of ——— years from the date hereof or on any subsequent anniversay date by giving the other party 60 days' notice in writing.

16. ASSIGNMENT—This contract may be assigned by either party. No transfer of or succession to the interest of Seller, however effected, shall bind Buyer until the original instrument or other proper proof that the claimant is legally entitled to such interest shall have been furnished Buyer at its office in Bartlesville, Oklahoma.

17. TERMINATION OF PRIOR CONTRACTS AND RELEASE—This contract terminates and supersedes any prior contracts between the parties hereto to the extent that such contracts cover the purchase and sale of gas covered by this contract. In consideration of the covenants herein contained, Seller hereby acknowledges payment in full by Buyer of all sums owed Seller by Buyer for gas, whether from an oil well or gas well, produced from the land above described prior to the date of this contract, and hereby releases and waives all causes of action therefor.

[7872]

IN WITNESS WHEREOF, the parties have hereunto subscribed their names.

STANOLIND OIL AND GAS COMPANY

BY: /s/ H. W. Milton
Its Attorney in Fact

ATTEST:

THE ATLANTIC REFINING COMPANY

BY: /s/ (Illegible)
Vice President

Seller

ATTEST:

/s/ L. A. (Illegible)

PHILLIPS PETROLEUM COMPANY

By /s/ F. E .Rice
Vice President

Buyer

ATTEST:

/s/ F. E. Kinslow
Assistant Secretary

STATE OF OKLAHOMA }
COUNTY OF TULSA } ss. Corporate Form

Before me, the undersigned, a Notary Public in and for said County and State, on this 28th day of July, 1950, personally appeared H. W. Milton, to me known to be the identical person who subscribed the name of Stanolind Oil and Gas Company to the within and foregoing instrument as its Attorney in fact and duly acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation for the uses, purposes and consideration therein expressed and set forth.

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Given under my hand and seal of office the day and year last above written.

/s/ Marjorie T. Welch
Notary Public

My commission expires:
November 30, 1950

STATE OF TEXAS
COUNTY OF DALLAS } ss. Corporate Form

Before me, the undersigned, a Notary Public in and for said County and State, on this 7th day of September, 1950, personally appeared E. H. Blum, to me known to be the identical person who subscribed the name of THE ATLANTIC REFINING COMPANY to the within and foregoing instrument as its Vice President, and duly acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation for the uses, purposes and consideration therein expressed and set forth.

Given under my hand and seal of office the day and year last above written.

/s/ June Koonce
Notary Public

My commission expires:
June 1, 1951

STATE OF OKLAHOMA
COUNTY OF WASHINGTON } ss. Corporate Form

Before me, the undersigned, a Notary Public in and for said County and State, on this 13th day of September, 1950,

personally appeared F. E. Rice, to me known to be the identical person who subscribed the name of PHILLIPS PETROLEUM COMPANY to the within and foregoing instrument as its Vice President, and duly acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation for the uses, purposes and consideration therein expressed and set forth.

Given under my hand and seal of office the day and year last above written.

/s/ Hazel Rust
Notary Public

My commission expires:
October 15, 1952

STATE OF .....}
COUNTY OF .....} ss. Individual Form

Before me, the undersigned, a Notary Public within and for said County and State, on this.....day of ....., 19....., personally appeared ....., to me known to be the identical person.... who executed the within and foregoing instrument, and acknowledged to me that.....executed the same as.....free and voluntary act and deed for the uses, purposes and consideration therein expressed and set forth.

Given under my hand and seal of office the day and year last above written.

.....
Notary Public

My commission expires:
.....

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TABLE I

GPM	Per Cent	GPM	Per Cent	GPM	Per Cent	GPM	Per Cent	GPM	Per Cent
.25 or less	91.05	2.20	71.00	4.15	52.95	6.10	37.50	8.05	24.80
.30	90.50	2.25	70.50	4.20	52.50	6.15	37.20	8.10	24.50
.35	90.05	2.30	70.10	4.25	52.15	6.20	36.90	8.15	24.25
.40	89.60	2.35	69.60	4.30	51.80	6.25	36.55	8.20	24.00
.45	89.00	2.40	69.10	4.35	51.30	6.30	36.20	8.25	23.65
.50	88.40	2.45	68.65	4.40	50.80	6.35	35.80	8.30	23.30
.55	87.85	2.50	68.20	4.45	50.40	6.40	35.40	8.35	22.95
.60	87.30	2.55	67.70	4.50	50.00	6.45	35.10	8.40	22.60
.65	86.80	2.60	67.20	4.55	49.65	6.50	34.80	8.45	22.30
.70	86.30	2.65	66.70	4.60	49.30	6.55	34.45	8.50	22.00
.75	85.75	2.70	66.20	4.65	48.85	6.60	34.10	8.55	21.70
.80	85.20	2.75	65.75	4.70	48.40	6.65	33.80	8.60	21.40
.85	84.70	2.80	65.30	4.75	47.95	6.70	33.50	8.65	21.10
.90	84.20	2.85	64.90	4.80	47.50	6.75	33.15	8.70	20.80
.95	83.65	2.90	64.50	4.85	47.15	6.80	32.80	8.75	20.55
1.00	83.10	2.95	63.95	4.90	46.80	6.85	32.50	8.80	20.30
1.05	82.50	3.00	63.40	4.95	46.35	6.90	32.20	8.85	20.05
1.10	81.90	3.05	62.95	5.00	45.90	6.95	31.85	8.90	19.80
1.15	81.40	3.10	62.50	5.05	45.50	7.00	31.50	8.95	19.50
1.20	80.90	3.15	62.00	5.10	45.10	7.05	31.15	9.00	19.20
1.25	80.40	3.20	61.50	5.15	44.75	7.10	30.80	9.05	18.85
1.30	79.90	3.25	61.00	5.20	44.20	7.15	30.50	9.10	18.50
1.35	79.45	3.30	60.50	5.25	43.85	7.20	30.20	9.15	18.20
1.40	79.00	3.35	60.15	5.30	43.50	7.25	29.85	9.20	17.90
1.45	78.50	3.40	59.80	5.35	43.05	7.30	29.50	9.25	17.60
1.50	78.00	3.45	59.30	5.40	42.60	7.35	29.25	9.30	17.30
1.55	77.50	3.50	58.80	5.45	42.25	7.40	29.00	9.35	17.05
1.60	77.00	3.55	58.35	5.50	41.90	7.45	28.65	9.40	16.80
1.65	76.50	3.60	57.90	5.55	41.55	7.50	28.30	9.45	16.50
1.70	76.00	3.65	57.40	5.60	41.20	7.55	28.00	9.50	16.20
1.75	75.50	3.70	56.90	5.65	40.80	7.60	27.70	9.55	16.00
1.80	75.00	3.75	56.55	5.70	40.40	7.65	27.30	9.60	15.80
1.85	74.50	3.80	56.20	5.75	40.15	7.70	26.90	9.65	15.50
1.90	74.00	3.85	55.75	5.80	39.90	7.75	26.70	9.70	15.20
1.95	73.45	3.90	55.30	5.85	39.50	7.80	26.50	9.75	14.95
2.00	72.90	3.95	54.80	5.90	39.10	7.85	26.20	9.80	14.75

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Note to TABLE I: The "Per Cent" in the table opposite the "GPM" corresponding to the test gasoline content of the gas delivered (subject to adjustment as provided in the following paragraph), multiplied by the volume of gas delivered by Seller during the settlement period, shall be the volume of gas Seller is entitled to have delivered for lease development and operation.

In the event the A.P.I. gravity of the raw unfractionated gasoline (determined in accordance with subdivision A (3) of Paragraph 7) exceeds 93, the following deductions shall be made from the applicable "Per Cent" in the above table:

(a) 0.3 for each full degree that such gravity exceeds 93 when the gas delivered tests 1 gallon or less per thousand feet,

(b) 0.2 for each full degree that such gravity exceeds 93 when the gas delivered tests more than 1 gallon but not more than 2 gallons per thousand cubic feet,

(c) 0.1 for each full degree that such gravity exceeds 93 when the gas delivered tests more than 2 gallons but less than 3 gallons per thousand cubic feet.

(d) No deduction shall be made when the gas delivered tests 3 gallons or more per thousand cubic feet.

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TABLE II

Test Gasoline Content in Gallons per 1,000 Cu. Ft. of Gas	.0 to .447	.447 to .893	.893 to 1.340	1.340 to 1.787	1.787 to 2.233	2.233 to 2.680	2.680 to 3.127	3.127 to 3.573	3.573 to 4.020	4.020 to 4.466	4.466 to 4.913	4.913 to 5.360	5.360 to 5.806	5.806 to 6.253
Price of Gasoline in Cents per Gallon	RATE IN CENTS PER THOUSAND CUBIC FEET													
Less than 2.0c	.05	.11	.24	.40	.59	.84	1.11	1.33	1.50	1.68	1.85	2.02	2.20	2.38
2.0 to 2.5	.08	.17	.34	.56	.83	1.15	1.51	1.89	2.14	2.39	2.64	2.89	3.15	3.40
2.5 to 3.0	.10	.23	.44	.73	1.08	1.48	1.95	2.43	2.75	3.07	3.39	3.71	4.03	4.36
3.0 to 3.5	.14	.29	.58	.93	1.35	1.85	2.43	3.00	3.40	3.80	4.19	4.60	5.00	5.39
3.5 to 4.0	.17	.36	.71	1.14	1.66	2.25	2.93	3.61	4.10	4.58	5.06	5.54	6.03	6.51
4.0 to 4.5	.21	.45	.86	1.37	1.98	2.68	3.48	4.36	5.35	6.02	6.65	7.29	7.91	8.54
4.5 to 5.0	.26	.54	1.03	1.63	2.34	3.14	4.06	5.08	6.02	6.72	7.43	8.13	8.85	9.55
5.0 to 5.5	.31	.64	1.21	1.91	2.71	3.63	4.68	5.83	6.65	7.43	8.21	8.99	9.78	10.55
5.5 to 6.0	.36	.76	1.41	2.19	3.11	4.16	5.33	6.43	7.29	8.13	8.99	9.85	10.71	11.56
6.0 to 6.5	.42	.87	1.62	2.51	3.54	4.70	6.02	6.98	7.91	8.85	9.78	10.71	11.64	12.56
6.5 to 7.0	.49	1.00	1.85	2.85	3.99	5.29	6.53	7.54	8.54	9.55	10.55	11.56	12.56	13.57
7.0 to 7.5	.56	1.13	2.08	3.19	4.47	5.91	7.02	8.10	9.18	10.26	11.34	12.42	13.49	14.57
7.5 to 8.0	.63	1.27	2.33	3.56	4.97	6.35	7.51	8.66	9.81	10.97	12.12	13.27	14.43	15.58
8.0 to 8.5	.70	1.43	2.60	3.95	5.50	6.76	7.99	9.21	10.45	11.67	12.90	14.13	15.36	16.58
8.5 to 9.0	.79	1.58	2.87	4.36	5.86	7.17	8.47	9.78	11.08	12.38	13.68	14.99	16.29	17.59
9.0 to 9.5	.87	1.75	3.17	4.79	6.20	7.58	8.96	10.33	11.71	13.09	14.47	15.84	17.22	18.59
9.5 to 10.0	.96	1.93	3.48	5.09	6.53	7.99	9.44	10.89	12.34	13.80	15.24	16.70	18.15	19.60
10.0 to 10.5	1.06	2.10	3.79	5.35	6.87	8.40	9.92	11.45	12.98	14.50	16.03	17.56	19.08	20.60
10.5 to 11.0	1.16	2.30	4.01	5.61	7.20	8.80	10.41	12.01	13.61	15.21	16.81	18.41	20.01	21.61
11.0 to 11.5	1.26	2.51	4.19	5.86	7.54	9.21	10.89	12.56	14.24	15.91	17.59	19.26	20.94	22.61
11.5 to 12.0	1.37	2.63	4.38	6.12	7.87	9.63	11.38	13.13	14.88	16.62	18.37	20.12	21.87	23.62

Note to TABLE II: The "Price of Gasoline in Cents Per Gallon" to be used in this table shall be the arithmetic average of the prices per gallon of Grade 26-70 natural gasoline, or its equivalent, f.o.b. Breckenridge, Texas, for sales of such gasoline published in Platt's Oilgram for the settlement period, or the arithmetic average of the prices per gallon of 36° A.P.I. gravity crude oil posted by The Texas Company, Humble Oil and Refining Company and Gulf Oil Corporation for West Texas for the settlement period, whichever is higher. In the event no sales of Grade 26-70 natural gasoline, or its equivalent, f.o.b. Breckenridge, Texas, are published in Platt's Oilgram for the settlement period, the arithmetic average of such sales prices for the last preceding month in which sales were published shall be used as the price of Grade 26-70 natural gasoline. The applicable "Rate in Cents Per Thousand Cubic Feet" is the figure horizontally opposite the "Price of Gasoline in Cents Per Gallon", determined as above provided, and vertically below the "Test Gasoline Content in Gallons per 1,000 Cu. Ft. of Gas" (GPM) corresponding to the test gasoline content of the gas delivered hereunder, as determined in accordance with Paragraph 6. Each test gasoline content and sales price division in the above table includes the smaller but excludes the larger figure.

Whenever the "Price of Gasoline in Cents Per Gallon" exceeds 12c, the applicable "Rate in Cents Per Thousand Cubic Feet" shall be determined by means of the following formula: GPM x "Price of Gasoline in Cents Per Gallon" x .3333. Whenever the GPM xceeds 6.253, the applicable "Rate in Cents Per Thousand Cubic Feet" shall be determined by means of the following formula: GPM x "Price of Gasoline in Cents Per Gallon" x "Factor". The "Factor" to be so employed shall be the applicable one shown in the table below:

Price of Gasoline in Cents Per Gallon	Factor
Less than 2.0c	.2250
2.0 to 2.5	.2500
2.5 to 3.0	.2625
3.0 to 3.5	.2750
3.5 to 4.0	.2875
4.00 and above	.3333

Each price division in the foregoing table includes the smaller but excludes the larger figure.

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Exhibit No. 63

PHILLIPS PETROLEUM COMPANY
Bartlesville, Oklahoma

GAS STATEMENT

Meter Sta. No.	16 S-1 CF	48 HR CHT	Accounting Period
Plant	GOLDSMITH	CH 14.65	
Producer	STANOLIND OIL & GAS CO		340
Lease	SCHARBAUER R —CLEARFORK ZONE—		
Location	NW SEC 29 BLK 44 T&P RR SUR ECTOR CO TEX		MARCH 1951

Owner's Decimal Fraction in 8/8 Value of the Gas .4375 ATLANTIC REFG CO — Owner or Owners Whose Share is Computed Hereon

1178

Volume of Gas Purchased in M. c. f. at 14.65 p. s. i. a.

1		2	7 34	3		4	7 34	5		6	6 14	7		8	8 74		29 56
9		10	10 10	11		12	9 89	13		14	9 30	15		16	10 52		69 37
17		18	10 26	19		20	10 70	21		22	13 67	23		24	12 96		116 96
25		26	11 51	27		28	10 75	29		30	5 84	31	4 27		TOTAL		149 33

1. Volume to which Seller is entitled for lease operation by application of Table 1	2. Volume delivered for lease operation	3. Difference between Columns 1 & 2	4. Total Difference Volume for all gas to plant, computed as in Col. 3	5. Decimal fraction of Col. 3 divided by Col. 4	6. Total volume of gas sold from plant	7. Volume of gas sold allocable to Seller (Col. 5 times Col. 6, Defined Par. 8)	8. Weighted average price per M. c. f. (Defined Par. 8)	9. Sum of ½ of the first 2.6798cts. of wgtd. avg. price & 2/3 of price in excess of 2.6798 cts. (Par. 7-2)
M. c. f.	M. c. f.	M. c. f.	M. c. f.	Proportion	M. c. f.	M. c. f.	Dollars	Dollars
115 13	NO GAS	115 13	26 226 56	00 438 98	29 396 03	129 04	04 924 86	02 836 61

10. Gas sold allocable to Seller times rate (Col. 7, times Col. 9, as per Par. 7-B)		11. Total gas purchased from Seller (from TOTAL above)	12. Test gasoline content in gallons per M. c. f. (as per Par. 6)	13. Test gasoline content of total gas purchased (Col. 11 times Col. 12)	14. Total daily average test gasoline content of all gas to plant	15. Applicable price of gasoline or oil per gallon (See note on Table II)	16. Rate per M. c. f. plus .134 cts. for pressure if applicable (Par. 7A and Table II)	17. Rate per M. c. f. added when Col. 14 exceeds 10,000 gallons (Par. 7A-1)
Dollars		M. c. f.	Gallons	Gallons	Gallons	Dollars	Dollars	Dollars
366 04		149 33	1.10	164 26	1 071 01	.0596	0141	0056

18. Average A.P.I. gravity of raw unfractionated gasoline	19. Amount per M. c. f. added for gravity in excess of 93° (Par. 7A-3)	20. Total of rates per M. c. f. shown in Columns 16, 17 and 19 (Par. 7A)	21. Volume times rate (Col. 11 times Col. 20) (Par. 7A)		22. Total price (Col. 10 plus Col. 21) (Par. 7)	23. Tax deducted and paid	24. Total price less tax
Degrees	Dollars	Dollars	Dollars		Dollars	Dollars	Dollars
117.2	0079	0276	412 15		778 19	44 51	733 68

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SHARE OF ABOVE OWNER OR OWNERS ☛ 320 99

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PHILLIPS PETROLEUM COMPANY
Bartlesville, Oklahoma

GAS STATEMENT

Meter Sta. No.	16 S-1 CF	48 HR CHT	Accounting Period
Plant	GOLDSMITH	CH 14.65	
Producer	STANOLIND OIL & GAS CO		340
Lease	SCHARBAUER R —CLEARFORK ZONE—		
Location	NW SEC 29 BLK 44 T&P RR SUR ECTOR CO TEX		MARCH 1951

1180

Owner's Decimal Fraction in 8/8 Value of the Gas ☞

Volume of Gas Purchased in M. c. f. at 14.65 p. s. i. a.

1		2	7 34	3		4	7 34	5		6	6 14	7		8	8 74		29 56
9		10	10 10	11		12	9 89	13		14	9 30	15		16	10 52		69 37
17		18	10 26	19		20	10 70	21		22	13 67	23		24	12 96		116 96
25		26	11 51	27		28	10 75	29		30	5 84	31	4 27		TOTAL		149 33

1. Volume to which Seller is entitled for lease operation by application of Table 1	2. Volume delivered for lease operation	3. Difference between Columns 1 & 2	4. Total Difference Volume for all gas to plant, computed as in Col. 3	5. Decimal fraction of Col. 3 divided by Col. 4	6. Total volume of gas sold from plant	7. Volume of gas sold allocable to Seller (Col. 5 times Col. 6, Defined Par. 8)	8. Weighted average price per M. c. f. (Defined Par. 8)	9. Sum of ½ of the first 2.6798cts. of wgtd. avg. price & 2/3 of price in excess of 2.6798 cts. (Par. 7-B)
M. c. f.	M. c. f.	M. c. f.	M. c. f.	Proportion	M. c. f.	M. c. f.	Dollars	Dollars
115 13	NO GAS	115 13	26 226 56	00 438 98	29 396 03	129 04	04 924 86	02 836 61

10. Gas sold allocable to Seller times rate (Col. 7, times Col. 9, as per Par. 7-B)	Under #50	11. Total gas purchased from Seller (from TOTAL above)	12. Test gasoline content in gallons per M. c. f. (as per Par. 6)	13. Test gasoline content of total gas purchased (Col. 11 times Col. 12)	14. Total daily average test gasoline content of all gas to plant	15. Applicable price of gasoline or oil per gallon (See note on Table II)	16. Rate per M. c. f. plus .134 cts. for pressure if applicable (Par. 7A and Table II)	17. Rate per M. c. f. added when Col. 14 exceeds 10,000 gallons (Par. 7A-1)
Dollars		M. c. f.	Gallons	Gallons	Gallons	Dollars	Dollars	Dollars
366 04		149 33	1.10	164 26	1 071 01	.0596	0141	0056

18. Average A.P.I. gravity of raw unfractionated gasoline	19. Amount per M. c. f. added for gravity in excess of 93° (Par. 7A-3)	20. Total of rates per M. c. f. shown in Columns 16, 17 and 19 (Par. 7A)	21. Volume times rate (Col. 11 times Col. 20) (Par. 7A)		22. Total price (Col. 10 plus Col. 21) (Par. 7)	23. Tax deducted and paid	24. Total price less tax
Degrees	Dollars	Dollars	Dollars		Dollars	Dollars	Dollars
117.2	0079	0276	412 15		778 19	44 51	733 68

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PHILLIPS PETROLEUM COMPANY
Bartlesville, Oklahoma

GAS STATEMENT

Meter Sta. No.	16 S-1 CF 48 HR CHT	Accounting Period
Plant	GOLDSMITH CH 14.65	
Producer	STANOLIND OIL & GAS CO	
Lease	SCHARBAUER R –CLEARFORK ZONE–	MARCH 1951
Location	NW SEC 29 BLK 44 T&P RR SUR ECTOR CO TEX	

Owner's Decimal Fraction in 8/8 Value of the Gas ☛

8/8 Volume of Gas Produced and saved at 14.65 p. s. i. a.	8/8 Value of Gas Produced and Saved	8/8 Tax Deducted and Paid	8/8 Value of Gas Produced and Saved Less Tax
M. c. f.	Dollars	Dollars	Dollars
149 33	778 19	44 51	733 68

000488	4151 SUSPENSE	36
007812	ROSE H & LEON GOODMAN	5 73
4375	STANOLIND OIL & GAS CO	320 98
4375	ATLANTIC REFG CO	320 99
002929	RALPH HOCHSTETTER	2 15
001953	JOHN K FUNK	1 43
038575	RUTH SCHARBAUER	28 30
038575	CLARENCE SCHARBAUER JR	28 30
000781	FALCON CO	58
004882	CLIFFORD MOOERS	3 58
000977	HOME STAKE ROYALTY CORP	72
003906	KEYSTONE ROYALTIES INC	2 86
008790	F A ANDREWS	6 45
000078	JOSEPHINE W HERBERT	06
000781	HERBERT ESTATES INC	57
000488	JAY P WALKER	36
001758	JULIAN W GLASS JR	1 29
001953	MARSHALL & WINSTON INC	1 43
000195	CRENSHAW ROYALTY CORP	15
000313	L A GREENE	22
000244	OLIVE A GRAY	18
000244	C G GRAY	18
000976	HENDERSON TRUSTS	72
000488	ELSIE L ROOME	36
001954	GLASS & REED	1 43
000488	FRED H CAMPBELL & MARGUERITE F CAMPBELL	36
000977	CHARLES W GRIMES	72
000489	JAMES S LYTLE & JAMES S WATSON JOINT ADMR. OF THE EST OF M. J. LYTLE DEC'D	35
001302	FREDERICK S. WINSTON & ELIZABETH MELONE WINSTON	96
001302	MARTHA N. WHITAKER	95
001302	FREDERICK S. WINSTON, TRUSTEE	96
		733 68

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Exhibit No. 64

[7877]

PHILLIPS PETROLEUM COMPANY
Bartlesville, Oklahoma

GAS STATEMENT

Meter Sta. No.	765 SHEET 1 8 DAY CHT PDG	A record of the computation of the weighted average price shown below will be available for inspection during regular office hours at the offices of Phillips Petroleum Company at Phillips, Texas and at Bartlesville, Okla.
Plant	SHERMAN PDG SW 14.65	
Producer	TASCOSA GAS CO	
Lease	DAVIS	
Location	SEC 57 BLK 2 CH&H SUR HANSFORD CO TEXAS	FEBRUARY 1951

3386

1183

.715 TASCOSA GAS CO — Owner or Owners Whose Share is Computed Hereon

Volume in M.c.f. at 14.65 lbs. per square inch absolute and at 60° Fahrenheit

1	2	3	4		5	6	7	8	25 32		
9	10	11	12		13	14	15	16	46 17		71 49
17	18	19	20		21	22	23	24	88 49		
25	26	27	28	42 00	29	30	31		TOTAL		201 98

		Volume		Price	Amount	Tax deducted and paid	Net
		201 98#					1163 97
.875	176 73			061125	1080 26	61 79	1018 47

SHARE OF ABOVE OWNER OR OWNERS 832 24

7877

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[7881]

Exhibit No. 68

[*Note: This exhibit was rejected by the Examiner at record 2759 and not received in evidence. An offer of proof was made on page 2760 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.*]

July 22, 1949

Mr. Paul Endacott
Building

I am submitting figures relative to results of two possible methods of drilling 100 gas wells in the Hugoton Field. Under one of the methods considered, Phillips Petroleum Company will drill the wells on Phillips acreage and own them throughout their life. Phillips will also pay off the present note of $4,125,000 when it becomes due in 1953, and the Republic Supply will repay Phillips the $4,125,000 in 1968, paying 3.5% interest for the entire period, which is the same rate it is now paying. We have assumed that Phillips will pay 3% on the $3,000,000 expended for drilling the 100 wells and also on the money used to pay off the note. Also, we have assumed that gas will be sold at 7¢ per thousand cubic feet and that the wells will participate in the sales to Michigan-Wisconsin Pipe Line Company in accordance with that contract.

On the second method of operation, we have assumed that the drilling will be farmed out to Kerr-McGee, which will borrow $7,125,000 at 4% interest for 15 years. With this money it will pay off the note and drill the wells. For the 15-year period during which the loan is being repaid, we have assumed that Kerr-McGee will show no earnings. It will retain sufficient income from the sales of gas from the

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wells to cover the repayment of the entire amount of borrowed capital plus interest and income taxes, and its share of the operating expenses. This could be done out of 81% of the working interest. During this period Phillips would retain a 19% W. I., paying its proportionate share of the operating costs, and would receive depletion allowance on its share of the gas sales. After the payout at the end of 15 years, Phillips' share of the working interest would jump to 75%, which would apply throughout the remaining life of the properties. The price for gas and the rate of take is the same as in the first case.

The following table shows what might be expected by Phillips from its share of the two methods of development and also what Kerr-McGee would receive as its share of the second method of development.

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Mr. Paul Endacott
7-22-49
Page 2

	Phillips' Share		Kerr-McGee's Share
		Farm Out	Farm Out
	Phillips Development Full WI	19% WI 1st 15 Yrs. 75% WI Thereafter	81% WI 1st 15 Yrs. 25% WI Thereafter (100% intangible drilling costs)
Gross MMCf Gas (16.4#)	485,900	485,900	485,900
Net MMCF	425,200	202,900	222,300
Net Factor	.875	.4175	.4575
Value @ 7c per MCF	$29,764,000	$14,203,000	$15,561,000
Repayment of note April 19, 1968	4,125,000	----	----
Interest Earned*	309,000	----	----
Total Income	$34,198,000	$14,203,000	$15,561,000
Less:			
Operating Expense	$ 4,235,000	$ 2,150,000	$ 2,085,000
Development Cost (Borrowed @ 3%) 100 wells @ $30,000	3,000,000	----	3,000,000
Amount Borrowed to pay Note April 19, 1953	4,125,000	----	4,125,000
Interest on Borrowed Money	120,000 (3%)	----	2,116,000 (4%)
Estimated Income Tax @ 38%	5,713,000	3,022,000	1,813,000
Total Deductions	$17,193,000	$ 5,172,000	$13,139,000
Profit After Income Tax	$17,005,000	$ 9,031,000	$ 2,422,000**
Difference: Full WI less Farmout		$ 7,974,000	
Discount rate at which Full WI and Farmout Deal are Equal		10%	
Estimated Years Life	35		35
Years to pay out	10.7		15
Annual Rate of Return	15%		4.5%

*Phillips would earn ½% interest, or difference between 3½%, the present rate, and 3%, the rate at which Phillips would borrow.

**In addition to this profit Kerr-McGee would have its $4,125,000 note paid.

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[7883]

Mr. Paul Endacott
7-22-49
Page 3

The figure of 19% W. I. which Phillips would retain during the payout period might be reduced if the gas sales were lower than estimated, thus giving some flexibility which might be of help in satisfying the bank's question as to guaranteed minimum sales. The total operating revenue which Phillips would receive during the 15-year payout period from the 19% W. I. amounts to $2,404,000, so that by reducing Phillips' working interest, based on some sliding scale tied in with total sales, the amount of money available for payment to the bank would be kept stable within certain limits of fluctuation of sales.

We shall be glad to work up additional figures if you so desire.

Yours very truly,

KEB:LL

cc: C. O. Stark
S. S. Learned

[7884]

Exhibit No. 69

[*Note: This exhibit was rejected by the Examiner at record 2759 and was not received in evidence. An offer of proof was made on page 2760 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.*]

Bartlesville, Oklahoma
October 20, 1949

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Re: Drilling 100 Gas Wells in
Panhandle-Hugoton Gas Field

Mr. Paul Endacott
Building

I am submitting revised figures pertaining to the latest proposal with regard to the drilling of 100 gas wells in a portion of the Panhandle-Hugoton Gas Field dedicated to the Michigan-Wisconsin Pipe Line Company.

The latest proposal under consideration would be for Phillips Petroleum Company to farm out 100 sections of gas acreage to Kerr-McGee, Republic Supply Company, or a new subsidiary of one or the other of the two companies. In this discussion the company accepting the assignments of our gas acreage will be termed the "new company".

Financing

The new company would arrange for financing with the Prudential Insurance Company for approximately $7,125,000 payable over a 20-year period, with 1/20 of the total indebtedness to be paid each year together with interest at an estimated rate of 3.5%. The new company would agree to apply the full amount of its annual net income to the payment of interest and the minimum annual payments on the principal loan, and if such net income in any one year is not sufficient to meet such payments then Phillips Petroleum Company agrees to loan the new company enough to make up the difference. It is our understanding that agreement has not yet been reached as to the rate of interest which the new company would pay Phillips Petroleum Company on money so advanced to it. The new company would agree to repay Phillips out of its share of the net income from the property in excess of the

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amounts required to service the loan from the Insurance Company, but presumedly would not be obligated to repay Phillips unless the properties themselves provided sufficient funds. Out of the proceeds of the loan, the new company would cause the indebtedness of $4,125,000 of Republic Supply Company to be paid, and would drill 100 wells on the gas acreage at an estimated cost of $30,000 per well or $3,000,000 in all.

Terms of Farmout

Under the proposed arrangement Phillips would assign to the new company 100 sections of gas acreage, reserving an overriding royalty throughout the life of the property. During the period until the loan is retired, the overriding royalty would be 16% of the gross. This is the same as an override of 18.3% of the 7/8 working interest and is calculated to be equivalent to 20% working interest, which was tentatively agreed on in earlier negotiations. After the loan is paid off, the reservation to Phillips would amount to an override of 48% of the gross, which is the same as 54.9% of the 7/8 working interest, and is equivalent to 62.5% working interest.

[7885]

Mr. Paul Endacott
10-20-49
Page 2

Operating and Purchase Contract

An agreement would be entered into between Phillips Petroleum Company and the new company whereby the new company would agree to drill the wells and

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complete them ready for connection to the gas pipe line. Phillips in turn would agree to lay the gathering system to connect the various wells and would purchase the raw gas at the well head at a price of 7¢ per Mcf at the same pressure base as set out in the Michigan-Wisconsin contract (16.4 pounds). Phillips would also agree to operate the wells for a fixed amount. In our calculations we have assumed the total operating expense per well per year would be $800. Of that amount, Phillips would receive approximately $250 per well per year for looking after the wells, including routine maintenance charges, but the new company would pay the actual cost of ad valorem taxes and the cost of any necesary reconditioning work which may have to be done on any of the wells throughout their life. There would also be a provision whereby Phillips would substitute new sections of acreage for any on which the wells have a lower initial potential than an agreed minimum. Details as to this item are not yet agreed on.

Present estimates of the Gas Department indicate that only 60 of these wells will be needed by the middle of 1950 and the remainder during the first half of 1951. If they are all drilled in 1950 it will require around a $400,000 investment by Phillips in unneeded field lines. Dividing the development into two years would fit into the tax picture better also.

Volume of Sales

The Gas Advisory Committee made an analysis of the possible rate of sales which might be expected from the acreage dedicated to the Michigan-Wisconsin line. This analysis was made after the Federal Power Commission denied Michigan-Wisconsin's application for in-

BLEED THROUGH

creased volume. However, it feels that by 1952 the certificate will be granted permitting sales to Michigan-Wisconsin of approximately 343,000,000 cubic feet daily. In our calculations we have used estimates of the Gas Advisory Committee, making figures for both the so-called "maximum" and "minimum" rate of sales. The following table gives the rate of sales per well per day:

	Mcf per Day per Well Pressure Base 16.4 psia	
	Maximum	*Minimum*
First 5 years	352	289
Second 5 years	318	255
Third 5 years	374	319
Fourth 5 years	374	329
Fifth 5 years	304	334
Sixth 5 years	223	293

Economic Analysis

Owing to the intangible drilling deductions there will be a very substantial tax credit during the development stage of the property. If the tax returns of the new company are not consolidated with the parent company the new company would have a tax credit which it could carry forward, but it probably

Economic Analysis Continued

could not benefit fully from the credits. It is our understanding that it is the intention of the Kerr-McGee

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management to consolidate the earnings of the new company with those of the parent company, in which event the net result of these intangible drilling deductions would be a substantial saving in income taxes to the parent company. There would be a small penalty due to the consolidation but since, from our view point, there is no need of a subsidiary, we feel we should not be forced to stand this penalty.

Under the so-called maximum sales basis, figures show that the loan would be completely paid off in a few months less than 20 years, entirely out of the new company's share of the operating profit after Federal income taxes. In 1958 Phillips would have to advance to the new company out of its own overriding royalty income approximately $70,000, in 1959 approximately $82,000, and in 1940 approximately $3,000, or a total of approximately $155,000. If so desired this could be repaid within a period of six years out of excess earnings of the new company above the minimum requirements to service the loan. By the end of the 20-year period, Phillips would have recovered from its 16% overriding royalty a total of $1,964,000, assuming that the above-mentioned advance was repaid out of excess earnings. At the time of payout, the new company, of course, would have had no profit, but from that time on would have the full working interest in the 100-well property, subject only to a 48% overriding royalty to Phillips, with no debts. During the subsequent life of the property the total profits of the new company after income taxes are estimated at $2,152,000.

Under the so-called minimum sales basis the results would not be quite so favorable. During the period 1954 to 1967 Phillips would have to advance funds to the new company in the amount of $1,286,000, such

BLEED THROUGH

advances would be in excess of Phillips' income from the 16% overriding royalty, the maximum advance being in the year 1955 in the amount of $186,000, which would be $113,000 more than the 16% overriding royalty during that year. At the end of 1959 Phillips would have advanced to the new company the equivalent of all of its 16% overriding royalty up to that time plus $205,000 in addition. From 1959 on the advances to the new company would continue until 1967 but would never in any one year amount to as much as the 16% overriding royalty. By the end of the 20-year period, at which time the Insurance Company loan would be paid off, the total accumulated amount of the 16% overriding royalty would have been approximately $1,646,000, of which Phillips would have received in cash $376,000 and would have an account receivable from the new company in the amount of $1,270,000. This latter amount would be paid back by the new company out of its share of the earnings by the end of 6.9 additional years. Under the minimum basis the new company would not receive any actual earnings for a period of approximately 27 years. Thereafter, its total profit after income taxes is estimated at $1,297,000.

It is the feeling of the Gas Advisory Committee that the actual amount of sales will be between the maximum and minimum, but nearer to the maximum than the minimum. If this is true then the financing results of the new company would be more nearly those set forth on the maximum basis.

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Mr. Paul Endacott
10-20-49
Page 4

In our figures we have not credited any refunds which might be due Phillips under the terms of the Republic pipe deal. We understand that these would be used to repay the loan at a faster rate and Phillips' override would be increased to 48% at an earlier date than estimated. The amounts of these refunds are difficult to estimate and were therefore not considered. In our analysis we have assumed a cost of $30,000 per well. We believe competitive bids on a large number of wells such as in this instance will reduce this by at least $2,000 per well. Also, all money needed for the 100 wells need not be borrowed at the outset. Items like these indicate our figures may be too conservative.

Other Methods of Development

The management will undoubtedly want to know the results of other methods of developing the property and we have compiled comparative figures. If the 100 wells were drilled with Company funds in the normal manner, the investment of $3,000,000 would be returned in 4.7 years on the maximum basis and 5.4 years on the minimum basis, with annual rates of return of 26% and 20% respectively. If, in addition to the $3,000,000 investment, we add the $4,125,000, then the payout would be 13.2 years on the maximum basis and 15.9 years on the minimum basis, and the annual rate of return would be 7% and 6% respectively.

Under the new method of financing whereby Phillips is required to obligate itself to loan the new company funds sufficient to meet the minimum annual payments, the man-

BLEED THROUGH

agement might want to consider handling the deal through a subsidiary, either an existing one or a new one. A Phillips subsidiary could make identically the same or perhaps a better financing deal with the Insurance Company, in which event the profit to the new company of $2,152,000 under the maximum basis and $1,297,000 under the minimum basis would be kept within Phillips Petroleum Company rather than going to a foreign company. In addition, there should be a profit of at least $300,000 to the company drilling the wells and this amount would also be saved by having the deal handled by a Phillips subsidiary.

We have discussed with the Comptroller's Department the matter of whether a footnote would be required on the Phillips Petroleum Company balance sheet covering this type of financing. It is by no means certain that a footnote would not be required, but tentatively Mr. Parr is of the opinon that it would not be necessary to have a footnote because of the relatively small amount of annual loan which would probably be required under the most severe conditions. If the deal were handled through a subsidiary such as West Edmond Oil Company, the same reasoning would apply insofar as the financing plan is concerned, but since there is a possibility that Phillips may be required to include in its consolidation the West Edmond Oil Company the same possibility would apply to this additional deal.

We shall be pleased to furnish any additional figures you may desire in this connection.

Yours very truly,

KEB:LL

cc: Mr. S. S. Learned
Mr. C. O. Stark

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[7888]

Exhibit No. 70

[*Note: This exhibit was rejected by the Examiner at record 2759 and not received in evidence. An offer of proof was made on page 2760 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.*]

Bartlesville, Oklahoma
November 14, 1949

Re: Drilling 100 Gas Wells in
Panhandle-Hugoton Gas Field

Mr. Stanley Learned
Mr. C. O. Stark
B u i l d i n g

I am submitting revised figures pertaining to the latest proposal for Phillips Petroleum Company to farm out 100 sections of gas acreage in that part of the Panhandle-Hugoton Gas Field dedicated to the Michigan-Wisconsin Pipeline Company to Republic Supply Company or a new subsidiary. In this discussion the company accepting the assignments of our gas acreage is termed the "new company".

Financing

The new company will borrow from Prudential Insurance Company approximately $7,125,000 payable over a 20-year period and bearing interest at 3.25%. Out of the proceeds of the loan, it will cause the $4,125,000 indebtedness of Republic Supply Company to be paid, either by lending or advancing the funds to Republic. Also, it will drill 100 gas wells on the acreage farmed-out by Phillips at an estimated cost of $3,000,000, or $30,000 per well. The new company

BLEED THROUGH

will apply all of its net cash proceeds after operating charges and taxes to the payment of interest on the loan and the reduction of principal. Such cash proceeds will consist of net income plus reserves charges and of the refunds now accruing to Phillips under the Republic pipe deal. Under the deal now contemplated these refunds will be paid by Republic to the new corporation to reduce the loan or advance of $4,125,000. If in any one year the net proceeds are not sufficient to meet the minimum requirements for reducing principal after paying interest, Phillips will advance the new company enough money to make up the difference. Subsequently, the new company will repay any such advances to Phillips from its net proceeds in years when they exceed the amounts required to service the loan from the insurance company. Presumably, the new company would not be obligated to repay Phillips unless the gas properties themselves and the refunds from Republic provided sufficient funds. Further, the refunds by Republic cease, as to any direct or indirect credit to Phillips, upon full repayment of the loan to the insurance company and of all advances by Phillips to meet minimum requirements to process the insurance company loan.

Terms of Farmout

Phillips reserves an overriding royalty on the gas acreage throughout the producing life. Until the loan is retired, the override will be 16% of gross. This is calculated to be equivalent to 20% working interest, which was tentatively agreed on in earlier negotiations. After the loan is paid off, the override will be 48% of gross, which is equivalent to 62.5% working interest.

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Operating and Purchase Contract

The new company will drill and complete the wells ready for connection to the gas pipe line. Phillips will substitute new sections of acreage for any which prove to be dry or on which the wells have a lower initial potential than 2.5 MMCF per day. Phillips will lay the gathering system, connect the wells and purchase the raw gas at the well head at 7¢ per MCF at the same pressure base as set out in the Michigan-Wisconsin contract (16.4 pounds). Phillips will also operate the wells for a fixed amount. In our calculations we have assumed the total operating expense per well per year would be $800. Of that amount, Phillips would receive approximately $250 per well per year for looking after the wells, including routine maintenance charges, but the new company will pay the actual cost of ad valorem taxes and of any necessary reconditioning work on any of the wells throughout their life.

[7889]

Page Two

Operating and Purchase Contract (Cont'd.)

Present estimates of the Gas Department indicate that 60 of these wells will be needed by the middle of 1950 and the remainder during the first half of 1951. If they were all drilled in 1950 it would require around $400,000 investment by Phillips in unneeded field lines. Dividing the development into two years also fits into the tax picture better.

Volume of Sales

The Gas Advisory Committee made an analysis of the possible rate of sales which might be expected from the acreage dedicated to the Michigan-Wisconsin line. This analysis

BLEED THROUGH

was made after the Federal Power Commission denied Michigan - Wisconsin's application for increased volume. However, it feels that by 1952 the certificate will be granted permitting sales to Michigan-Wisconsin of approximately 343,000,000 cubic feet daily. In our calculations we have used estimates of the Gas Advisory Committee, making figures for both the so-called "maximum" and "minimum" rates of sales. The following table gives the rate of sales per well per day:

	MCF per Day per Well Pressure Base 16.4 psia	
	Maximum	*Minimum*
First 5 years	352	289
Second 5 years	318	255
Third 5 years	374	319
Fourth 5 years	374	329
Fifth 5 years	304	334
Sixth 5 years	223	293

Economic Analysis

Our analysis includes as costs to the new company delay rentals of $40,000 and $48,000 as the cost of two dry holes assumed to be drilled in the development program. No allowance was made for wells smaller than the 2.5 MMCF minimum initial potential since it was assumed reimbursement of cost would be received from whomever took over such wells.

We understand that the Republic management intends to consolidate earnings of the new company with those of the parent company to take advantage of the tax savings through intangible development costs and percentage depletion. There would be a small penalty from consolidation of returns, but the over-all effect cannot be calculated with-

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out estimates of Republic's earnings, which are not available. Therefore, in our calculations we have considered the tax situation of the new company standing alone. We have, however, included the assumption that losses can be carried forward for five years in computing income taxes. This compares with the existing situation by which losses can be carried forward only two years.

This method of treating income taxes results in the new company paying no tax during the first seven years under either the so-called "maximum" or "minimum" sales basis. However, this shows the new company as not being able to use $550,000 of income tax credits in the "maximum" case and $725,000 in the "minimum" case because of having to forego certain deductions when using the five-year carry forward privilege. We recommend that the new company and Republic be required to use that method of reporting for income taxes which gives the greatest advantage to the new company.

[7890]

Economic Analysis (Cont'd.)

Under the maximum sales basis, figures show that the loan would be completely paid off in approximately 16 years, entirely from the new company's share of the net proceeds from gas sales after Federal income taxes, plus the refunds from Republic Supply Company. By the end of the payout period, Phillips will have recovered from its 16% overriding royalty a total of $1,468,000, and will receive around $6,000,000 in 35 years. At the time of payout, the new company, of course, would have had no profit, but from that time on would have the full working interest in the 100 wells, subject only to a 48% overriding royalty to Phillips,

BLEED THROUGH

with no debts. At the end of 35 years the total profits of the new company after income taxes are estimated at $2,925,000.

Under the minimum sales basis, the results would be less favorable. During the period 1952 to 1959, inclusive, Phillips would have to advance funds to the new company in the amount of $340,000, the maximum advance being in the year of 1957 in the amount of $55,000. Never in any one year would the advances amount to as much as the 16% overriding royalty. The advances by Phillips to the new company to be repaid to Phillips out of proceeds above the minimum amounts required to process the loan are estimated to be fully repaid by 1964. By the end of 19 years the Insurance Company loan will be paid and the total accumulated amount of the 16% overriding royalty will approximate $1,500,000. Phillips will receive from its overriding royalty around $5,720,000 in 35 years. Profit of the new company after income taxes in 35 years is estimated at $2,530,000.

General

Minimum requirements for payments on the principal of the loan have not been firmly set. It is definite that no minimum shall apply during the first two years, 1950 and 1951. Thereafter, the minimum shall be either 1/18 of the remaining unpaid principal or 1/20 of the original amount of the loan. In our calculations, we used 1/18 of the unpaid principal at the end of 1951, which gave larger necessary annual payments than if 1/20 had been used. The net effect of this is that should the lower minimum apply, the amount of the deficit which will have to be advanced by Phillips will be smaller than indicated in the figures given.

The Gas Advisory Committee feels that the actual amount of sales will be between the maximum and minimum, but

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nearer to the maximum. If this is true, the financing results of the new company would be more nearly those set forth on the maximum basis.

In our figures the refunds assumed to be due under the terms of the Republic pipe deal have been set at $125,000 per year for the first 5 years and $150,000 per year thereafter.

We have assumed development cost of $30,000 per well. We believe competitive bids on such a large number of wells will reduce this figure by at least $2,000 per well.

A copy of this analysis is being sent to Mr. Parr, who will give an opinion as to whether a footnote will be required on the Phillips Petroleum Company balance sheet covering this type of financing.

We shall be pleased to furnish any additional figures you may desire in this connection.

Very truly yours,

RAH:wl

cc—R. E. Parr
W. A. Hensley

BLEED THROUGH

[7891]

SUMMARY

RESULTS OF PROPOSED FARMOUT OF 100 GAS WELLS
—HUGOTON GAS FIELD

Maximum Sales

	Phillips 16% of Gross ORR during payout of loan—48% of gross OR thereafter	New Company's Share after ORRI
Gross MMCF Gas 16.4# P. B.—35 years*	389,200	389,200
Net MMCF	125,594	214,955
Net Factor	.3227	.5523
Value @ 7c	$8,791,600	$15,046,900
Refund (Republic pipe deal)	----	2,215,000
TOTAL GROSS RECEIPTS	$8,791,600	$17,261,900
Less:		
Operating Expense	$ 456,000	$ 3,538,700
Rentals	----	40,000
Two dry holes @ $24,000	----	48,000
Development cost—100 wells @ $30,000	----	3,000,000
Amount to pay note	----	4,125,000
Interest on borrowed money @ 3¼%	----	2,048,100
Estimated Income Tax**	2,293,800	1,536,200
TOTAL DEDUCTIONS	$2,749,800	$14,336,000
PROFIT AFTER INCOME TAX	$6,041,800	$ 2,925,900
Period covered by this analysis—years		35
Years to pay out loan		15.6

*—35 years production used, although reserves will not be exhausted by assumed production in that period.

**—In calculating taxable income, percentage depletion of 27½% was assumed to continue for the period used. Income tax rates of 38% were used for the entire period. It was assumed that the period for carrying forward losses in computing taxable income would be 5 years.

Note: Minimum annual requirements for repayment of $7,125,000 loan. No minimum 1st two years; thereafter, 1/18 annually of unpaid balance at end of second year.

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[7892]

SUMMARY

RESULTS OF PROPOSED FARMOUT OF 100 GAS WELLS –HUGOTON GAS FIELD

Minimum Sales

	Phillips 16% of Gross ORR during payout of loan–48% of gross OR thereafter	New Company's Share after ORRI
Gross MMCF Gas 16.4# P. B.–35 years*	$78,150	$78,150
Net MMCF	118,924	211,957
Net Factor	.3145	.5605
Value @ 7c	$8,324,700	$14,837,000
Refund (Republic pipe deal)	---	2,692,000
TOTAL GROSS RECEIPTS	$8,324,700	$17,529,000
Less:		
Operating Expense	$ 433,000	$ 3,524,000
Rentals	---	40,000
Two dry holes @ $24,000	---	48,000
Development Cost 100 wells @ $30,000	---	3,000,000
Amount to pay note	---	4,125,000
Interest on borrowed money @ 3¼%	---	2,481,100
Estimated income tax**	2,173,700	1,510,500
TOTAL DEDUCTIONS	$2,606,700	$14,728,600
PROFIT AFTER INCOME TAX	$5,718,000	$ 2,800,400
Period covered by this analysis–years		35
Years to pay out loan		18.8

*–35 years production used, although reserves will not be exhausted by assumed production in that period.

**–In calculating taxable income, percentage depletion of 27½% was assumed to continue for that period used. Income tax rates of 38% were used for the entire period. It was assumed that the period for carrying forward losses in computing taxable income would be 5 years.

Note: Minimum annual requirements for repayment of $7,125,000 loan. No minimum 1st two years; thereafter, 1/18 annually of unpaid balance at end of second year.

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[7893]

Exhibit No. 71

[Note: This exhibit was rejected by the Examiner at record 2759 and not received in evidence. An offer of proof was made on page 2760 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.]

RECEIVED
DEC 23 1949
LAND DEPT.

Bartlesville, Oklahoma
December 20, 1949

Mr. C. O. Stark
Building

Dear Mr. Stark:

As you requested, we have prepared and are attaching hereto summaries of estimated results from developing and producing the 100 gas well locations in the Hugoton Gas Field proposed to be included in the deal with Tascosa Gas Company.

The first summaries show the results over 35 years of operation to the owner of a full unencumbered working interest who would be able to take full advantage of charges for intangible drilling costs in payment of income taxes. These results are shown for both "maximum" gas production and for the "anticipated actual" gas production.

The other two summaries show the results over 35 years of operation to Phillips from its overriding royalty and to Tascosa from its interest under terms of the proposed deal

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with Tascosa and for both the "maximum" and "anticipated actual" gas production.

Very truly yours,

K. E. BEALL

RAH: wl

[7894]

DEAL WITH TASCOSA GAS COMPANY

Estimated Maximum Gas Sales

	P. P. Co. 16% of Gross ORR during payout of loan and 48% of gross ORR thereafter	*Tascosa's Interest After ORR*
Gross MMCF Gas 16.4#—35 yrs. Prod.	382,400	382,400
Net MMCF Gas	122,788	211,818
Net Factor	.3211	.5539
Value @ 7¢ per MCF	$8,595,000	$14,827,000
Refund from pipe deal	313,000	2,223,000
TOTAL INCOME	$8,908,000	$17,050,000
Less:		
Lifting Cost	$ —	$2,729,000
Gross Production Tax 5.2%	447,000	771,000
Lease rentals	—	40,000
Interest on borrowed money	—	2,061,000
Amount to pay note	—	4,128,000
Development Cost (100 wells @		

BLEED THROUGH

$28,000—2 dry holes @ $24,000)	—	2,848,000
Estimated income tax (Rate 38%)	2,317,000	1,677,000
TOTAL DEDUCTIONS	$2,764,000	$14,254,000
PROFIT AFTER INCOME TAX	$6,144,000	$2,796,000
Period covered by this analysis—years		35
Years to pay out loan		15.6

12-20-49

[7895]

ESTIMATED RETURNS TO A FULL UNENCUMBERED WORKING INTEREST FROM 100 GAS WELLS HUGOTON FIELD

Estimated Maximum Gas Sales

GROSS MMCF Gas 16.4# (35-year period)	382,400
NET MMCF .875	334,600
Value @ 7¢ Per MCF	$23,422,000
Less:	
Lifting Cost	$2,729,000
Gross Production tax (5.2%)	1,218,000
Lease Rentals	40,000
Income Tax (Rate 38%)	3,962,000
TOTAL EXPENSE	$7,949,000
Net after Expenses	$15,473,000
Development Cost (100 wells @ $28,000—2 dry holes @ $24,000)	2,848,000
PROFIT AFTER INCOME TAX	$12,625,000
Period covered by this analysis—years	35
Estimated years to pay out	4.9
Annual rate of return	22%

12-20-49

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[7896]

DEAL WITH TASCOSA GAS COMPANY

Anticipated Actual Gas Sales

	P. P. Co. 16% of Gross ORR during payout of loan and 48% of gross ORR thereafter	*Tascosa's Share After ORR*
Gross MMCF Gas 16.4#	368,700	368,700
Net MMCF Gas	121,355	201,245
Net Factor	.3291	.5459
Value @ 7¢ Per MCF	$8,496,000	$14,089,000
Refund from pipe deal	304,000	2,242,000
TOTAL INCOME	$8,800,000	$16,331,000
Less:		
Lifting Cost	$ —	$2,729,000
Gross Production Tax (5.2%)	441,000	733,000
Lease Rentals	—	40,000
Interest on borrowed money	—	2,096,000
Amount to pay note	—	4,128,000
Development Cost (100 wells @ $28,000—2 dry holes @ $24,000)	—	2,848,000
Estimated Income Tax (Rate 38%)	2,288,000	1,556,000
TOTAL DEDUCTIONS	$2,729,000	$14,130,000
PROFIT AFTER INCOME TAX	$6,071,000	$2,201,000
Period covered by this analysis—years		35
Years to pay out loan		15.8

12-20-49

BLEED THROUGH

[7897]

ESTIMATED RETURNS TO A FULL UNENCUMBERED WORKING INTEREST FROM 100 GAS WELLS HUGOTON FIELD

Anticipated Actual Gas Sales

GROSS MMCF Gas 16.4# (35-year Prod.)	368,700
NET MMCF Gas .875	322,600
Value @ 7¢ Per MCF	$22,585,000
Less:	
Lifting Cost	$2,729,000
Gross Production Tax (5.2%)	1,174,000
Lease rentals	40,000
Income Tax (Rate 38%)	3,724,000
TOTAL EXPENSE	$7,667,000
Net after Expenses	$14,918,000
Development Cost (100 wells @ $28,000—2 dry holes @ $24,000)	2,848,000
PROFIT AFTER INCOME TAX	$12,070,000
Period covered by this analysis—years	35
Estimated years to pay out	5.4
Annual rate of return	20%

12-20-49

[7898]

Exhibit No. 72

[*Note: This exhibit was rejected by the Examiner at record 2759 and was not received in evidence. An offer of proof was made on page 2760 of the record by the State of Wisconsin and the Public Service Commission of Wisconsin.*]

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RECEIVED
JAN 6 1950
LAND DEPT.-1

January 6, 1950

Mr. Stanley Learned
Building

Dear Mr. Learned:

Attached is a table showing by years the accumulated estimated net receipts which would have accrued from the drilling by Phillips of the 100 gas wells farmed out to Tascosa, after allowing for payment of the Republic note in 1953 and the receipt from Republic of repayment in 1968; the accumulated estimated net receipts under the Tascosa farmout; and the accumulated net difference in Phillips cash position under the deal made. All figures are after income taxes.

The table also shows the present worth of net receipts in each case after discount at 7%, the values being approximately equal at that rate. At discount rates less than 7% returns from development by the Company would have the greater present worth, while returns from the Tascosa farmout would show the greater present worth at discounts higher than 7%. Therefore, if returns greater than 7% can be made by the Company on its capital investments, the returns from the Tascosa deal will prove more advantageous than if the wells had been drilled by the Company.

Very truly yours,

K. E. Beall
/s/ K. E. BEALL

RAH:WL
Att.

cc—C. O. Stark

BLEED THROUGH

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[7899]

Year	"Anticipated Actual" Production Basis — Accumulated Total Net Cash Receipts			"Maximum" Production Basis — Accumulated Total Net Cash Receipts		
	Development by Phillips	Tascosa Farmout	Gain under Tascosa Farmout	Development by Phillips	Tascosa Farmout	Gain under Tascosa Farmout
1950	$ 1,074,580	$ 17,000	$1,091,580	$ 1,070,770	$ 37,300	$1,108,070
1951	1,553,310	115,800	1,669,110	1,505,770	128,900	1,634,670
1952	1,127,910	195,300	1,323,210	1,024,710	228,500	1,253,210
1953	4,828,230	191,900	5,020,130	4,669,370	328,100	4,997,470
1954	4,404,300	188,500	4,592,800	4,189,780	427,700	4,617,480
1955	4,002,620	146,500	4,149,120	3,738,590	517,700	4,256,290
1956	3,600,870	104,500	3,705,370	3,287,300	565,400	3,852,700
1957	3,199,050	62,500	3,261,550	2,836,000	590,900	3,426,900
1958	2,797,160	20,500	2,817,660	2,384,600	616,400	3,001,000
1959	2,395,190	21,500	2,373,690	1,933,120	641,900	2,575,020
1960	1,909,620	50,700	1,960,320	1,394,900	785,500	2,180,400
1961	1,423,970	122,900	1,546,870	856,600	929,100	1,785,700
1962	938,230	195,100	1,133,330	318,210	1,072,700	1,390,910
1963	452,400	267,300	719,700	220,270	1,216,300	996,030
1964	33,520	339,500	305,880	758,840	1,359,900	601,060
1965	535,780	538,000	2,220	1,297,500	1,609,300	311,800
1966	1,018,140	1,137,600	119,460	1,836,260	1,971,400	135,140
1967	1,510,600	1,737,200	226,600	2,375,120	2,333,500	41,620
1968	6,196,940	2,336,800	3,860,140	7,107,860	2,695,600	4,412,260
1969	6,686,400	2,765,500	3,920,900	7,643,720	3,057,700	4,586,020
1970	7,127,820	3,031,100	4,096,720	8,071,250	3,315,800	4,755,450
1971	7,569,240	3,296,700	4,272,540	8,498,780	3,573,900	4,924,880
1972	8,010,660	3,562,300	4,448,360	8,926,310	3,832,000	5,094,310
1973	8,452,080	3,827,900	4,624,180	9,353,840	4,090,100	5,263,740
1974	8,893,500	4,093,500	4,800,000	9,781,370	4,348,200	5,433,170
1975	9,231,260	4,302,400	4,928,860	10,083,560	4,537,500	5,546,060
1976	9,569,020	4,511,300	5,057,720	10,385,750	4,726,800	5,658,950
1977	9,906,780	4,720,200	5,186,580	10,687,940	4,916,100	5,771,840
1978	10,244,540	4,929,100	5,315,440	10,990,130	5,105,400	5,884,730
1979	10,582,300	5,138,000	5,444,300	11,292,320	5,294,700	5,997,620
1980	10,879,840	5,324,600	5,555,240	11,558,890	5,464,500	6,094,390
1981	11,177,380	5,511,200	5,666,180	11,825,460	5,634,300	6,191,160
1982	11,474,920	5,697,800	5,777,120	12,092,030	5,804,100	6,287,930
1983	11,772,460	5,884,400	5,888,060	12,358,600	5,973,900	6,384,700
1984	12,070,000	6,071,000	5,999,000	12,625,170	6,143,700	6,481,470
Present Worth Disc. @ 7%	$ 1,365,000	$1,441,000		$ 1,799,000	$1,782,000	

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[7943]

Exhibit No. 79

PHILLIPS PETROLEUM COMPANY
DELIVERIES TO MICHIGAN-WISCONSIN
PIPE LINE COMPANY
GAS PRODUCED AND PURCHASED
DAILY AVERAGE M. C. F. @ 14.65 PSIA
MONTH OF MARCH, 1951

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PHILLIPS PETROLEUM COMPANY
DELIVERIES TO MICHIGAN - WISCONSIN PIPE LINE COMPANY
GAS PRODUCED AND PURCHASED
DAILY AVERAGE M. C. F. @ 14.65 PSIA
MONTH OF MARCH, 1951

Purchases	Mich-Wisc. Dedicated Acreage Except Stratford		Excess From Stratford Acreage		Total Processed Sherman Plant	
	Volume	Percent	Volume	Percent	Volume	Percent
American Gas Production Company	—		73,922	59	73,922	20
Bayou Oil Company	2,605	1	11,545	9	14,150	4
Humble Oil & Refining Company	457	—	—	—	457	—
Kerr-McGee Oil Industries, Inc.	5,210	2	4,164	4	9,374	3
Magnolia Petroleum Company	8,600	4	7,542	6	16,142	4
Skelly Oil Company	9,247	4	—	—	9,247	3
Stanolind Oil & Gas Company	24,854	10	17,929	14	42,783	12
Tascosa Gas Company	30,391	13	—	—	30,391	8
United Production Company	8,258	4	—	—	8,258	2
Total Purchases	89,622	38	115,102	92	204,724	56
Phillips Production	147,853	62	10,420	8	158,273	44
Total Produced & Purchased	237,475	100	125,522	100	362,997	100
Residue Deliveries to Michigan-Wisconsin Pipe Line Company					353,319	

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Exhibit No. 81

[7950]

PHILLIPS PETROLEUM COMPANY
EXPLORATORY WELL COMPLETIONS
1941 THRU 1950

	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	Total	Per Cent
DRILLED FOR NEW FIELDS												
Wells Producing Oil and Casinghead Gas or Gas & Distillate	11	7	9	14	7	7	6	11	6	7	85	16%
Wells Producing Gas Only	....	2	2	2	2	....	4	2	1	2	17	3%
Dry Holes	29	51	35	96	44	35	30	54	18	22	414	81%
	40	60	46	112	53	42	40	67	25	31	516	100%
DRILLED FOR EXTENSIONS OF PRODUCING FIELDS												
Wells Producing Oil and Casinghead Gas or Gas & Distillate	5	7	7	9	3	1	7	3	1	2	45	27%
Wells Producing Gas Only	....	....	....	5	5	....	1	....	....	1	12	7%
Dry Holes	8	3	16	18	13	10	12	24	4	3	111	66%
	13	10	23	32	21	11	20	27	5	6	168	100%
DRILLED FOR NEW PRODUCING ZONES IN PRODUCING FIELDS												
Wells Producing Oil and Casinghead Gas or Gas & Distillate	2	2	....	2	3	1	2	3	3	....	18	44%
Wells Producing Gas Only	....	....	....	....	....	....	....	....	1	....	1	2%
Dry Holes	....	....	....	3	4	2	3	5	1	4	22	54%
	2	2	....	5	7	3	5	8	5	4	41	100%
TOTAL	55	72	69	149	81	56	65	102	35	41	725	
SUMMARY												
Wells Producing Oil and Casinghead Gas or Gas & Distillate	18	16	16	25	13	9	15	17	10	9	148	21%
Wells Producing Gas Only	....	2	2	7	7	....	5	2	2	3	30	4%
Dry Holes	37	54	51	117	61	47	45	83	23	29	547	75%
Total	55	72	69	149	81	56	65	102	35	41	725	100%

NOTE: Number of wells shown are gross wells in which Phillips Petroleum Company drilled or participated in drilling with other parties.

Prepared by: EHB:mb

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[7951]

Exhibit No. 82

Map bearing the legend "Sheet No. 1 of Geo. F. Kelly's—Millionth Scale Base Map of—The United States—Oil and Gas Edition—(Revised)".

[Because of its bulky nature this map is placed in a separate volume entitled "Volume VI, Maps." See map No. 1.]

[7989]

Exhibit No. 86

A map bearing legend "A portion of West Texas and Southeastern New Mexico" showing Phillips leased acreage, Phillips gas contract acreage, Phillips cancelled contract acreage, Phillips part interest lease, Phillips gasoline plants and boosters and other company gasoline and carbon black plants and certain pipe lines.

[Because of its bulky nature this map is placed in a separate volume entitled "Volume VI, Maps." See map No. 2.]

[7997]

Exhibit No. 91

A map bearing legend "West Texas Goldsmith Area" showing acreage leased by Phillips, together with other data.

[Because of its bulky nature this map is placed in a separate volume entitled "Volume VI, Maps." See map No. 3.]

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[8009]

Exhibit No. 95-A

PERCENTAGE OF GAS
SUPPLIED BY GULF OIL CORPORATION
BASED ON VOLUMES FOR MARCH, 1951

(Mcf @ 14.65)

	Crane Plant	*Judkins Plant*	*Goldsmith Plant*
Total Gas Processed	1,187,713	502,649	3,889,639
Volume from Gulf Oil Corp.	1,055,158	107,600	1,046,649
Percentage of Total	88.84	21.41	26.91

[8014]

Exhibit No. 99-A

A photograph from the air of the Fullerton Plant.

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[8015]

Exhibit No. 100

Aerial photograph of the Goldsmith Plant.

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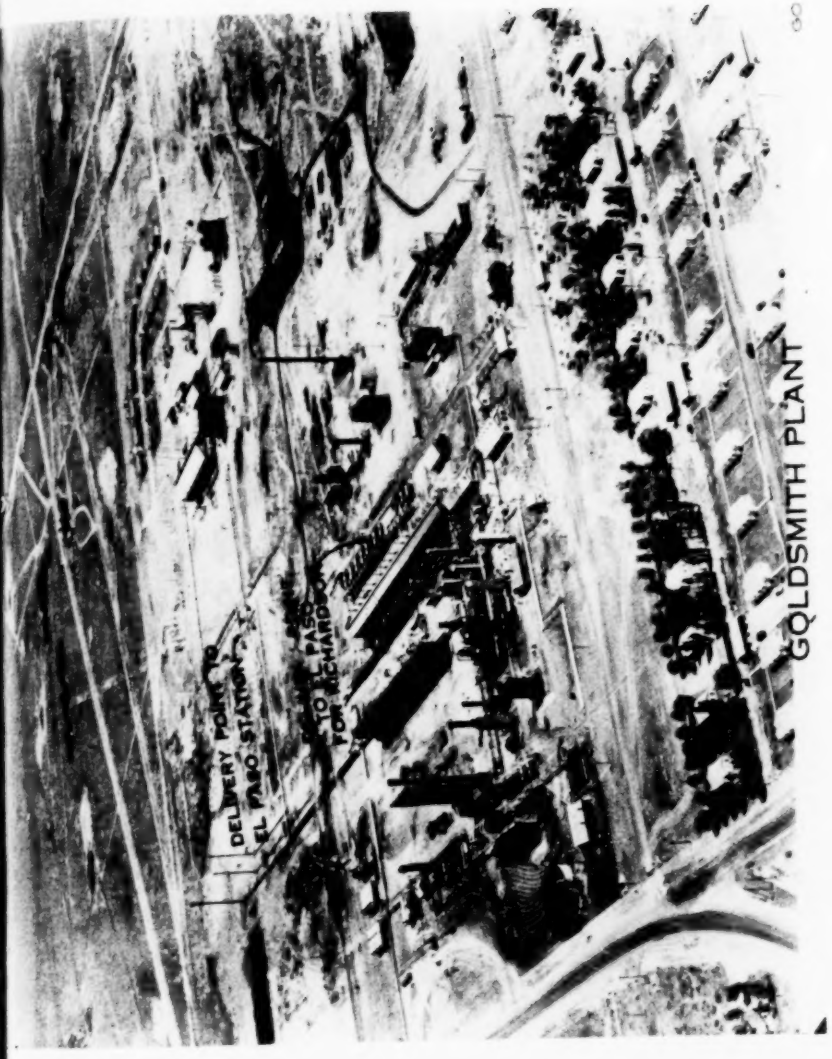

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[8017]

Exhibit No. 101

Aerial photograph of the Eunice Plant.

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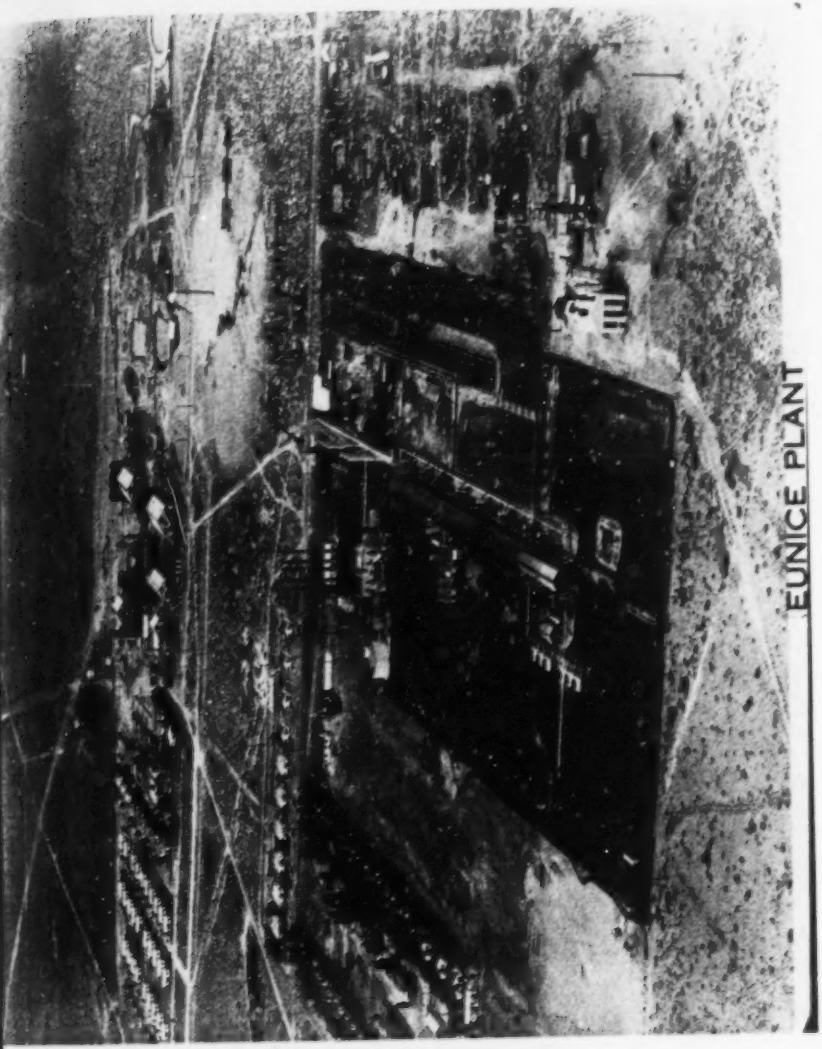

EUNICE PLANT

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[8019]

Exhibit No. 102

Aerial photograph of the Crane Plant.

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[8021]

Exhibit No. 103

Map of Panhandle and South Part of Hugoton Field.

[*Because of its bulky nature this map is placed in a separate volume entitled "Volume VI, Maps." See map No. 4.*]

[8022]

Exhibit No. 104

A map of the Pampa Area.

[*Because of its bulky nature this map is placed in a separate volume entitled "Volume VI, Maps." See map No. 5.*]

[8029]

Exhibit No. 107

PHILLIPS PETROLEUM COMPANY
NUMBER OF
CASINGHEAD GAS PURCHASE CONTRACTS
AT PHILLIPS PLANTS AS OF MARCH 1, 1950

Plant Name or Area	*Total*	*On Old Forms*	*On New Form*	*% of Total on New Form*
Borger Area	55	9	46	84
Pampa Area	87	20	67	77
Crane	19	11	8	42

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Eunice	47	0	47	100
Goldsmith	69	20	49	71
Judkins	54	3	51	94
Hobbs	34	32	2	6
Lee	12	8	4	33
Seminole	23	0	23	100
Fullerton	35	6	29	83
Oklahoma District	216	216	0	0
Total	651	325	326	

[8044]

Exhibit No. 109-B

GAS ROYALTY AGREEMENT

The undersigned Phillips Petroleum Company represents that it is the owner of the gas rights under a valid and subsisting oil and gas lease or leases covering the following described land in.....County, ..., to wit:

insofar as said lease or leases cover said land, and each of the undersigned Royalty Owners represents that he is the owner, under said lease or leases, of a royalty interest in said land.

IT IS AGREED THAT in consideration of the mutual covenants herein contained, said oil and gas lease or leases, insofar as they cover said land, shall be and are hereby amended, effective as of the date of first production of gas,

by substituting in lieu of the provisions therein contained for payment of royalty on all gas, other than casinghead gas, and all amendments or modifications of said provisions, if any, the following:

"Royalty

Lessee shall pay, on all sweet gas and sour gas, including all the components thereof, produced from said land and sold or used off the premises, a royalty determined as follows:

The royalty on the total volume of sweet gas so produced and so sold or used shall never be less than four cents (4¢) multiplied by one-eighth (⅛) of the total volume in M.c.f. of such sweet gas and the royalty on the total volume of sour gas so produced and so sold or used shall never be less than three and one-half cents (3½¢) multiplied by one-eighth (⅛) of the total volume in M.c.f. of such sour gas. Whenever the weighted average price per M.c.f. received by Lessee from all sales of gas delivered within an area comprising Texas County, Oklahoma and Sherman and Hansford Counties, Texas, during any calendar month, exceeds four cents (4¢) per M.c.f., the royalty on the total volume of sweet gas so produced and so sold or used during the succeeding month shall be an amount equal to such weighted average price multiplied by one-eighth (⅛) of the total volume in M.c.f. of such sweet gas and the royalty on the total volume of sour gas so produced and so sold or used during such succeeding month shall be an amount equal to such weighted average price less .4466¢ multiplied by one-eighth (⅛) of the total volume in M.c.f. of such sour gas.

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Definitions

The term 'natural gas' shall include both gas produced from gas wells and gas produced from oil wells.

The term 'casinghead gas' shall mean any gas and/or vapor indigenous to an oil stratum and produced from such stratum from an oil well.

The term 'sweet gas' shall mean any natural gas, other than casinghead gas, containing not more than one and one-half (1½) grains of hydrogen sulphide per one hundred (100) cubic feet of gas computed to standard conditions nor more than thirty (30) grains of total sulphur per one hundred (100) cubic feet of gas computed to standard conditions.

The term 'sour gas' shall mean any natural gas, other than casinghead gas, containing more than one and one-half (1½) grains of hydrogen sulphide per one hundred (100) cubic feet of gas computed to standard conditions or more than thirty (30) grains of total sulphur per one hundred (100) cubic feet of gas computed to standard conditions.

The term 'standard conditions' shall mean a temperature of sixty (60) degrees Fahrenheit and a pressure equal to that exerted by a thirty (30) inch column of mercury at thirty-two (32) degrees Fahrenheit.

The term 'M.c.f.' shall mean one thousand (1,000) cubic feet of gas computed to a base pressure of 14.65 pounds per square inch absolute and a base temperature of sixty (60) degrees Fahrenheit. In making such measurements, the flowing temperature of the gas and the variable factors necessary to calculate the metered volumes in accordance with the Ideal Gas Laws and the variable factors to correct for deviation from the

Ideal Gas Laws shall be in accordance with rules, regulations and determinations of the Railroad Commission of Texas.

The phrase 'weighted average price per M.c.f. received by Lessee from all sales of gas,' shall mean the weighted average price, computed as hereinafter provided, received by Lessee and its subsidiaries from the sale to others than Lessee and its subsidiaries of natural gas and any components of natural gas, excluding sales of casinghead gas sold in its natural state, delivered by Lessee in the form of gas within the above designated area. In computing said weighted average price, there shall not be deducted any cost of transportation or purification incurred by Lessee, and any amount per M.c.f. received by Lessee from the purchaser for transportation or purification prior to delivery shall be deemed to be a part of the price per M.c.f. received by Lessee, but, from the price per M.c.f. received by Lessee from any such sale which is made at an average pressure in excess of the average shut-in wellhead pressure of all wells within the above designated area from which sweet gas and sour gas are produced and/or purchased by Lessee, there shall be deducted .1116¢ per M.c.f. for each twenty-five (25) pounds or fraction thereof that the average pressure at which such sale is made so exceeds said average shut-in wellhead pressure. The shut-in wellhead pressures shall be as determined periodically by governmental agencies having jurisdiction or, if no such determinations are made, then as determined by Lessee in accordance with its practice.

The term 'subsidiaries' shall mean corporations of whose voting stock Lessee owns more than fifty (50) per cent.

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The term 'weighted average price' as used herein shall refer to weight with respect to volume and price only.

In computing the volumes of sweet and sour gas produced from said land and sold or used off the premises, there shall be deducted from the volumes produced and saved from said land during any month the volumes used on the premises during such month for development or operation thereof whether produced on or off said premises. The volumes so used on the premises may be estimated in accordance with applicable governmental rules and regulations or, if there are none, in accordance with Lessee's practice."

Except as herein expressly modified, the terms and provisions of said oil and gas lease or leases and any amendments or modifications thereof, including any provision for shut-in gas well payments and any agreements pertaining to consolidations and unitizations, shall be and remain in full force and effect.

[8045]

It is understood and agreed that this Gas Royalty Agreement is prepared in multiple copies and that each Royalty Owner who executes this agreement or any copy thereof shall be bound thereby regardless of whether or not other Royalty Owners execute this agreement or a copy thereof.

EXECUTED this .....day of....., 19.....

ROYALTY OWNERS

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

PHILLIPS PETROLEUM COMPANY

By .....
Vice President

ATTEST:

.....
Assistant Secretary

STATE OF.....}
COUNTY OF.....} ss.

Individual Form Applicable Where Lands are in Oklahoma or Texas

Before me, the undersigned, a Notary Public within and for said County and State, on this .....day of ....., 19...., personally appeared ....., to me known to be the identical person.... who executed the within and foregoing instrument, and acknowledged to me that.....executed the same as.....free and voluntary act and deed for the uses, purposes, and consideration therein expressed and set forth.

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BLEED THROUGH

Given under my hand and seal of office the day and year last above written.

.....

Notary Public

My commission expires:

.....

STATE OF.....}
COUNTY OF.....} ss.

Individual Form Applicable Where Lands are in Oklahoma or Texas

Before me, the undersigned, a Notary Public within and for said County and State, on this .....day of ....., 19...., personally appeared ....., to me known to be the identical person.... who executed the within and foregoing instrument, and acknowledged to me that.....executed the same as.....free and voluntary act and deed for the uses, purposes, and consideration therein expressed and set forth.

Given under my hand and seal of office the day and year last above written.

.....

Notary Public

My commission expires:

.....

STATE OF.....}
COUNTY OF.....} ss.

Individual Form Applicable Where Lands are in Oklahoma or Texas

8045

Before me, the undersigned, a Notary Public within and for said County and State, on this .....day of ....., 19...., personally appeared ....., to me known to be the identical person.... who executed the within and foregoing instrument, and acknowledged to me that.....executed the same as.....free and voluntary act and deed for the uses, purposes, and consideration therein expressed and set forth.

Given under my hand and seal of office the day and year last above written.

.....

Notary Public

My commission expires:

.....

[8046]

STATE OF.....}
COUNTY OF.....} ss.

Individual Form Applicable Where Lands are in Oklahoma or Texas

Before me, the undersigned, a Notary Public within and for said County and State, on this .....day of ....., 19...., personally appeared ....., to me known to be the identical person.... who executed the within and foregoing instrument, and acknowledged to me that.....executed the same as.....free and voluntary act and deed for the uses, purposes, and consideration therein expressed and set forth.

Given under my hand and seal of office the day and year last above written.

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BLEED THROUGH

.....

Notary Public

My commission expires:

.....

STATE OF.....}ss.
COUNTY OF.....}

Form for Use in Texas for Married Women

Before me, the undersigned authority in and for said County and State, on this day personally appeared..... ....., wife of ....., known to me to be the person whose name is subscribed to the foregoing instrument, and having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said....., acknowledged such instrument to be her act and deed, and declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it.

Given under my hand and seal of office, this..... day of ....., 19....

.....

Notary Public in and for the
County of.....,
State of.....

STATE OF.....}ss.
COUNTY OF.....}

Form for Use in Texas for Married Women

Before me, the undersigned authority in and for said County and State, on this day personally appeared..... ....., wife of ....., known to me to be the person whose name is subscribed to the foregoing instrument, and having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said....., acknowledged such instrument to be her act and deed, and declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it.

Given under my hand and seal of office, this..... day of ....., 19.....

.....

Notary Public in and for the

County of.....,

State of.....

STATE OF.....}
COUNTY OF.....} ss.

Form for Use in Texas for Married Women

Before me, the undersigned authority in and for said County and State, on this day personally appeared..... ....., wife of ....., known to me to be the person whose name is subscribed to the foregoing instrument, and having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said....., acknowledged such instrument to be her act and deed, and declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it.

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BLEED THROUGH

Given under my hand and seal of office, this.....
day of ....., 19.....

.....
Notary Public in and for the
County of.....,
State of.....

[8047]

STATE OF.....}
COUNTY OF.....} ss.

Form for Use in Texas for Married Women

Before me, the undersigned authority in and for said County and State, on this day personally appeared.....
....., wife of ....., known to me to be the person whose name is subscribed to the foregoing instrument, and having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said....., acknowledged such instrument to be her act and deed, and declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it.

Given under my hand and seal of office, this.....
day of ....., 19.....

.....
Notary Public in and for the
County of.....,
State of.....

STATE OF.....}
COUNTY OF.....} ss.

Corporate Form Applicable Where Lands are in Oklahoma or Texas

Before me, the undersigned, a Notary Public in and for said County and State, on this.....day of ....., 19...., personally appeared ....., to me known to be the identical person who subscribed the name of.....to the within and foregoing instrument as its.....President, and duly acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation for the uses, purposes, and consideration therein expressed and set forth.

Given under my hand and seal of office the day and year last above written.

.....
Notary Public

My commission expires:

.....

No.....

GAS ROYALTY AGREEMENT

FROM

.....

.....

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BLEED THROUGH

TO

.....

.....

Dated....., 19.....

No. Acres .....

County .....

State of .....

This instrument was filed for record on the

.....day of ....., 19....., at

.....o'clock.....M., and duly

recorded in Book....., Page.....

records of.....of this office.

County Clerk or Recorder.

County.....

State of .....

By....., Deputy

When recorded return to

.....

49630-D

STATE OF.....}
COUNTY OF.....} ss.

Corporate Form Applicable Where Lands are in Oklahoma or Texas

Before me, the undersigned, a Notary Public in and for said County and State, on this.....day of ....., 19...., personally appeared ....., to me known to be the identical person who subscribed the name of.....to the within and foregoing instrument as its.....President, and duly acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation for the uses, purposes, and consideration therein expressed and set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

.....

.....
Notary Public

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[8052]

Exhibit No. 111

Map of the Western part of Hutchinson County, Moore County and the Eastern part of Hartley County, Texas.

[Because of its bulky nature this map is placed in a separate volume entitled "Volume VI, Maps." See map No. 6.]

[8065]

Exhibit No. 113

Aerial photograph of the Dumas Plant.

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DUMAS PLANT

[8068]

Exhibit No. 114-A

Aerial photograph of the Sneed Plant.

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[8070]

Exhibit No. 116

Map bearing the legend "Texas and Oklahoma portions of the Hugoton Field".

[*Because of its bulky nature this map is placed in a separate volume entitled "Volume VI, Maps." See map No. 7.*]

[8072]

Exhibit No. 117-A

Aerial photograph of the Sherman and Hansford Plants.

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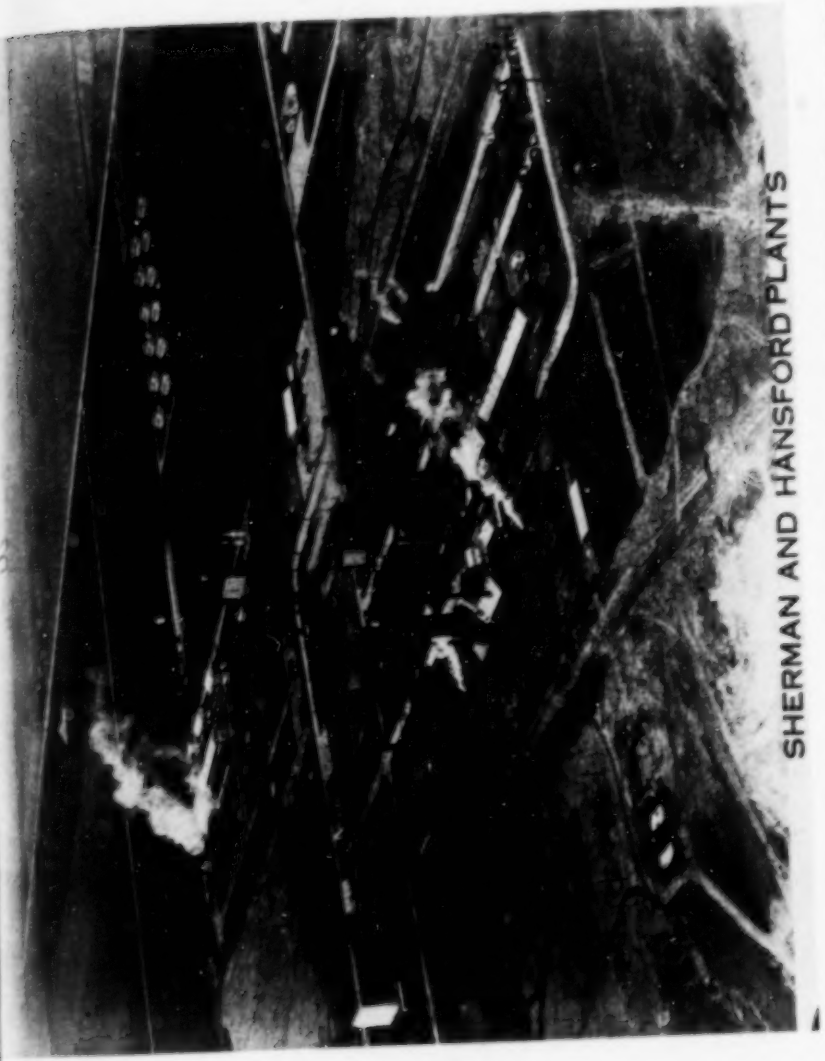

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[8082]

Exhibit No. 119

OKLAHOMA CORPORATION COMMISSION

Oklahoma City, Oklahoma

December 2, 1949

Oil and Gas
Conservation
Department

STATE OF OKLAHOMA
COUNTY OF OKLAHOMA } SS

The undersigned, Tom McMurray, Secretary of the Corporation Commission of the State of Oklahoma, hereby certifies that the instrument attached hereto is a true and correct copy of the original record on file with the Secretary of the Corporation Commission of the State of Oklahoma and that the undersigned has legal custody of the original record of which the attached is a true and correct copy.

IN TESTIMONY WHEREOF, I hereunto set my hand and affix the seal of the Corporation Commission of the State of Oklahoma.

Done in Oklahoma City, Oklahoma, this the 2nd day of December, 1949.

/s/ Tom McMurray
Secretary.

(SEAL)

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[8083]

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

In the Matter of the Application of Walker T. Pound, Conservation Office, for a well Spacing Order and Rules and Regulations Governing Production and Ratable Taking of Natural Gas in the GUYMON HUGOTON FIELD, Texas County, Oklahoma	CAUSE CD No. 983 ORDER No. 17867

REPORT OF THE COMMISSION

This cause came on for hearing before the Corporation Commission of the State of Oklahoma in its court room in the Capitol Office Building, Oklahoma City, Oklahoma, on the 24th day of May, 1945, at 10 o'clock A. M., upon the application filed by the Conservation Officer and pursuant to order of the Commission setting the same for hearing and notice published as required by law; at which hearing, Chairman Reford Bond and Commissioners Ray O. Weems and Wm. J. Armstrong sitting, Floyd Green, Conservation Attorney, appeared for the Conservation Department and the following appearances were made: Earl Pruet and Kelsey Hutchinson for Peerless Oil and Gas Company; R. C. Foulston, George M. Green and R. M. Rainey for Republic Natural Gas Company; Colin C. Rae for Skelly Oil Company; R. M. Williams and E. G. DeParade for Phillips Petroleum Company; Del Howard and Joe Rolston, Jr., for Cities Service Gas Company; Jarman and Jarman by Ed White for A. P. Gardner; and John Schoeppel for Waldo E. Stephens; whereupon evidence was presented in support of the application, and the Commission closed the case and took the matter under advisement.

FINDINGS

1. That notice by publication of the filing of the application herein, the time and place of the hearing thereon, and the purpose of said hearing, has been regularly given in all respects as required by law, and the Commission has jurisdiction of the subject matter embraced in said application and of the parties interested therein, and jurisdiction to issue and promulgate and hereinafter prescribed order.

2. That the application in this cause requests the issuance of a spacing order in the Guymon Hugoton Pool pursuant to the provisions of House Bill No. 257 of the Twentieth Session of the Oklahoma Legislature.

3. That under date of December 27, 1944, the Commission issued its Order No. 17410 in Cause CD No. 861, providing for the manner and method of determining the capacity of the wells to produce in said pool and the making of allocations to the wells, and the Conservation Department has been operating under said order since January 1st, 1945.

4. That the Hugoton Gas Field is located in the States of Oklahoma, Kansas, and Texas, and is one of the largest known gas reserves in the United States; that a large portion of said field lies within Texas County, Oklahoma, and has been named by this Commission the "Guymon-Hugoton Pool"; that the probably productive area of said pool is hereinafter more specifically described in this order.

That the Guymon-Hugoton Pool constitutes one common source of supply of gas, although there are three or more producing horizons that are inter-connected, which are known as the Crider, Winfield, and Harrington horizons and are found at an approximate depth of 2810 feet; that an average thickness of the producing formation is 45 feet;

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that there are approximately 191 wells in said pool, of which approximately 156 are now producing and connected to pipe lines; that the virgin pressure in said pool was approximately 442 pounds, but at the present time it has been reduced to approximately 400 pounds; that total reserves are estimated at seven trillion cubic feet.

That the first gas well in said common source of supply was drilled in the year 1922; that several pipelines have been laid and several companies have interests in said pool and are now engaged in the drilling and production of gas wells or in the transmission of gas from said pool, or both.

7. That pressure differentials exist to some extent between the wells and leases in said field, which appears to be due primarily to the fact that some wells have been produced for a longer period and have produced more gas than others, which shows that there is some migration of gas from some leases to others, and unless action is taken by the Commission the differentials will increase and cause inequities due to drainage and waste will result. It is common knowledge that gas in a formation migrates toward the wells that are on production and have the lowest

pressure, and that drainage thus caused, which if not equalized by counter-drainage from other properties, results in disproportionate production by the wells on the respective properties.

8. That the Conservation Department has taken production tests at various times in said pool in compliance with Orders Nos. 16377 and 17410 heretofore issued by this Commission; that the most recent tests have been made in

compliance with said Order No. 17410, which takes into consideration acreage and deliverability; that well allowables have been established for the producing wells in said pool, and said allowables are set out in Exhibits Nos. 6 and 7 introduced in evidence in this cause; that this order should become effective as of June 1, 1945, and Order No. 17410 should be inoperative as of said date.

9. That the full production of gas from wells in said pool is greatly in excess of the market demand and of the transportation and marketing facilities.

10. That in the years 1913 and 1915 the Legislature of the State of Oklahoma enacted laws governing the production and ratable taking of natural gas and prohibiting the waste thereof, and authorizing and directing the Corporation Commission to promulgate rules and regulations for determination of the natural flow of wells and the taking of natural gas from the common sources of supply within the State so as to prevent waste, provide for ratable taking, and protect the interests of the public and all those having a right to produce therefrom; and the Commission was therein authorized and directed to give due regard to the acreage drained by each well in determining the amount of gas that should be produced from any common source of supply and fixing well allowables; such rules and regulations to give to each owner or lessee an opportunity to produce as nearly as possible all of the natural gas located in its original state under the property owned by him, and permit him to produce it ratably with other persons having an interest therein and wells located thereon; that in the years 1933 and 1935 the Legislature enacted additional statutes which pertain principally to oil production, but in general providing that production of oil and gas in such manner as to constitute waste is prohibited, and authorizing and directing the Corporation Commission to make and

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promulgate rules and regulations for the prevention of such waste.

11. That pursuant to said statutes the Corporation Commission in January, 1945, adopted general rules and regulations providing for the taking of potentials and for ratable taking of gas, which were and are applicable to all gas fields in this State, being Order No. 17528; that because of special conditions obtaining in the Guymon-Hugoton Pool said rules and regulations are insufficient to carry out the objects of the laws as to gas production; and in order to prevent waste, insure ratable taking, protect the interests of the public, and all parties interested therein; to prevent any lessee from securing an unfair proportion of the gas in said pool, and to give to each lessee and royalty owner an opportunity to recover the gas originally underlying the surface of the land owned by him, it is necessary to promulgate special rules and regulations for the Guymon-Hugoton Pool; that the provisions of the general Order No. 17528 should govern in all instances with the exception that in event of a conflict the special rules and regulations set out in this order should prevail.

12. That the allocation formula hereinafter set out in this order should be adopted by the Commission to permit each well to currently produce its ratable share of the gas and ultimately to produce the approximate amount originally underlying the lease, to protect the interests of the public and of all parties interested therein, and prevent waste; that in such formula many factors are considered, such as percentage of the well's capacity to produce, acreage, pressures, porosity, perveability, and thickness of the formation, of which acreage and percentage of capacity to produce are the most important; that in determining the ability of the well to put gas into a pipeline against pipeline pressure, which is known as deliverability, natural flow,

pressure, porosity permeability, and thickness of the formation should be considered.

13. That it appears that one well in said pool will adequately drain 640 acres without waste; that all wells heretofore drilled have been in one section as laid out by the Governmental Survey; that drilling units should be established for said Guymon-Hugoton Pool which should contain not to exceed 640 acres within one Governmental section; provided however, that the short sections lying adjacent to the Oklahoma-Kansas State Line should be added to the unit immediately south of the short section, but in no event should any unit comprise more than 800 acres; that each well hereafter drilled should be located in the center of its unit or in any event not farther from the center than 467 feet; that in figuring allowables, if a unit contains more than 640 acres, that fact should be taken into consideration.

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14. That the deliverability factor, hereinafter set out in this order, which takes into consideration each well's capacity to produce, porosity, permeability, pressures, thickness of the formation, and other factors, should be adopted in making allocations to wells in the pool.

15. That the establishment of the acreage and deliverability factors, as hereinafter set out in this order, is necessary for determination of well allowables, in order to prevent waste, protect the interests of the public and all persons interested in said common source of supply, and to give to each producer and owner an opportunity to produce currently his proportionate part of the gas originally underlying his land.

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16. That under Enrolled House Bill No. 257, enacted by the Twentieth Session of the Oklahoma Legislature, only one well may be drilled in any unit, and where there are divided or undivided interests, or both, in a unit, and they are unable to agree upon a pooling of their interests in the development of the unit, either or all of the interested parties may file an application with this Commission for a pooling order, and this Commission, after notice and hearing, shall issue an order that is fair and reasonable for all interested parties and that will insure to each and all of the interested parties their fair proportion of the underlying said unit; provided however, that in figuring and making allocations, until such time as the working interests of the various owners within a unit are pooled, only the acreage of the lessee owning and operating the well shall be taken into consideration.

17. That all of the royalty owners in a unit should participate in the proceeds of any well produced in the unit in the ratio that the acreage of the royalty owned bears to the total acreage of the unit.

18. That in determining allocations in said pool, only developed acreage should be considered, and developed acreage should mean the acreage within a unit on which there is a producing well with a market outlet, or the owner of which is ready, willing, and able to permit or to make a pipeline connection or deliver his gas to other market at the going price for gas in the field, and the allowable for such unconnected well should begin as hereinafter provided in this order.

19. That there should be two market demand periods each year, one beginning April 1 and ending September 30, and the other begining October 1 and ending March 31, inclusive, with the idea of dividing the periods of high

demand from those of lower demand; that the Commission will hold a hearing preceding each period, at which hearings the market demand and anticipated production of gas for each month of the period will be determined by nominations from all purchasers and takers and estimates from producers, that can be produced without waste; that the Conservation Department will make monthly allocations to wells, and if the market demand or anticipated production that can be produced without waste, as determined by the Commission, is shown to have increased or decreased during any period, the Conservation Department may adjust allowables to conform thereto, subject to approval by the Commission at the next regular hearing; that the Commission may hold hearings in addition to those herein mentioned at any time it deems advisable.

20. That in applying the allocation formula, the Conservation Department will prepare schedules which set out the anticipated production from the field and the allowable for each well for each calendar month of the period; and underproduction and overproduction which may result from application of said formula will be adjusted as hereinafter specifically set out in this order.

21. That all of the rules and regulations adopted in this order are necessary to accomplish the objects and purposes of the laws of the State of Oklahoma in the production of gas from the Guymon-Hugoton Pool, to prevent waste, protect the interests of the public and of all those having a right to produce gas therefrom, provide for ratable taking, obtain a greater recovery, prevent drainage not offset by counterdrainage, and encourage future development.

IT IS THE INTENTION — *PURPOSE AND* POLICY OF THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA IN ISSUING THIS ORDER

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TO PROMULGATE RULES AND REGULATIONS AS AUTHORIZED AND DIRECTED BY THE LAWS OF THE STATE OF OKLAHOMA GOVERNING PRODUCTION OF NATURAL GAS IN ORDER TO PREVENT WASTE, PROVIDING A UNIFORM METHOD OF DETERMINING A PERCENTAGE OF THE WELL'S CAPACITY TO PRODUCE, AND FOR RATABLE TAKING OF GAS, IN ORDER TO PROTECT THE INTERESTS OF THE PUBLIC AND ALL PARTIES INTERESTED THEREIN, AND TO GIVE EACH OPERATOR AN OPPORTUNITY TO PRODUCE CURRENTLY HIS PROPORTIONATE PART OF THE GAS AND ULTIMATELY TO PRODUCE APPROXIMATELY THE AMOUNT OF GAS ORIGINALLY UNDERLYING THE SURFACE OF THE LAND OWNED BY HIM.

IT IS NOT THE INTENTION TO LIMIT OR RESTRICT THE MARKET DEMAND FOR GAS IN THE GUYMON HUGOTON POOL, BUT ONLY TO RESTRICT PRODUCTION TO MARKET DEMAND AND PRORATE PRODUCTION EQUITABLY AND FAIRLY AMONG THE PRODUCERS AND OWNERS.

IT IS FURTHER THE INTENTION OF THE COMMISSION THAT THAT PORTION OF THE HUGOTON FIELD IN THE STATE OF OKLAHOMA BE REFERRED TO AS THE GUYMON HUGOTON POOL.

ORDER

IT IS THEREFORE ORDERED by the Corporation Commission of the State of Oklahoma as follows:

1. This order shall supersede Order No. 17410 issued by the Commission on the 27th day of December, 1944, in Cause CD No. 861, and shall be effective as of June 1, 1945, for the drilling and production of wells and the taking and transportation of natural gas in the Guymon-Hugoton Pool.

2. Drilling and/or spacing units, 640 acres in size consisting of one section according to the United States Governmental Survey, are hereby established for the development of the Guymon-Hugoton Pool located in Texas County, State of Oklahoma, the probable productive area of which covers parts of the following described townships, to-wit:

> Township One (1) North, Ranges Twelve (12) to Seventeen (17) East;
>
> Townships Two (2), Three (3), and Four (4) North, Ranges Twelve (12) to Eighteen (18) East; and Townships Five (5) and Six (6) North, Ranges Twelve (12) to Nineteen (19) East of the Cimarron Meridian,

which area may be extended by the drilling of additional wells, it being the intention to cover all of the productive area of said common source of supply, and any wells drilled into said common source of supply outside the area above described shall be drilled in the manner and according to the pattern herein described.

The short sections lying adjacent to the Kansas-Oklahoma State Line shall be added to and made a part of the unit immediately to the south of the short section, but in no event shall any unit comprise more than 800 acres.

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Each well hereafter drilled in said pool shall be drilled in the center of its unit, and in no event farther than 467 feet from the center of the unit, which shall apply to the units comprising the short sections herein mentioned; provided that, an exception is hereby allowed for the five or six wells heretofore drilled to points other than the center of their units, which wells shall be treated as the well for its unit and no additional well shall be drilled therein.

3. *ALLOCATION FORMULA*—A formula shall be, and is hereby adopted for the purpose of allocating gas production to the wells in the pool, which formula shall consist of acreage and deliverability factors, as herein defines; and said formula shall be applied as herein set out.

4. ACREAGE FACTOR—(2) The acreage factor in said pool to be used in the allocation formula shall be 640 acres, and in no event more than 800 acres, as provided in paragraph 2 hereof.

(b) In determining the units herein-prescribed, for the purpose of allocation of gas production, only developed acreage shall be considered; and developed acreage shall mean any unit on which there is a producing well having a pipeline connection or other market outlet or the owner or operator of which is ready, willing, and able to permit or to make a connection and dispose of his gas at the going price in the field. If the operator or owner by affidavit or otherwise, shows to the Conservation Officer that he is ready, willing, and able to permit or to make a connection and the pipeline or other outlet refuses to take his gas, then his acreage shall be deemed developed acreage under this order. Before any unconnected well shall be granted an allowable, the operator shall tender its gas production to a purchaser by registered mail, and copy of said letter of tender shall be sent to the Con-

servation officer. If at the end of thirty days no connection has been made and the Conservation Officer is satisfied that the operator has made such tender in good faith, then the Conservation Officer shall fix an allowable for said well to commence at the end of such thirty-day period; provided further, when there is no dispute between the seller and the purchaser, the producer or the purchaser shall file an affidavit on a form prescribed by the Commission, showing the date the well was connected and actual production was commenced, on which date the

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allowable shall be fixed for said well.

(c) When there are divided or undivided interests, or both, within any spacing unit and the owners of such interests are unable to agree upon a pooling of their interests in producing the unit, then the rights and obligations of such parties shall be determined by the Commission as provided in Section 4 of Enrolled House Bill No. 257 enacted by the Twentieth Session of the Legislature of Oklahoma, which by reference is made a part hereof as fully as if set out herein. Likewise any interested royalty owner and any party at interest shall have the right to apply to the Commission for a pooling order to enforce the pooling of all interests within the unit.

(d) Each operator shall file a sworn statement with the Oil and Gas Conservation Department, on a form approved by the Commission, describing the acreage contained in each unit and the location of the well thereon. If there be separately owned or unitized tracts within the section upon which the well is located, such fact shall be shown. No unit shall be given an allowable until said statement

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is filed and approved by the Conservation Department or the Commission.

(e) Wells shall be drilled as nearly as practicable in the center of the unit, and in no event shall be farther from the center than 467 feet, except upon special order of the Commission after notice and hearing.

5. (a) *DELIVERABILITY FACTOR — PRESSURE* — The deliverability of each connected well in said pool shall be determined as follows: The well shall be produced into the pipeline for approximately seventy-two (72) hours, during which time the working pressure at the well-head shall be maintained at eighty per cent (80%) of the average shut-in well-head pressure of the field, expressed in pounds per square inch gauge and designated herein as the deliverability standard pressure, or as closely thereto as operating conditions in the pool will permit. In no case shall the working well-head pressure during the test be more than ninety percent (90%) or less than seventy per cent (70%) of the shut-in well-head pressure of the well being tested unless it can be shown to the satisfaction of the Conservation Officer that it is impracticable to maintain the pressure within the above described limits and that the accuracy of the test will not be unduly affected by failure to do so. Flow shall be measured by approved meter throughout the 72-hour test period, and the well-head pressure shall be measured by dead weight gauge at the close of the test period. The rate at which the well is producing at the end of 72 hours shall be considered the stabilized producing rate corresponding to the working well-head pressure existing at that time, provided such rate is not greater than the average production rate for the entire 72 hour period. If the working well-head pressure at the close of the test is exactly equal to the deliverability standard pressure, then the corresponding stabilized producing

rate, expressed in MCF per day at a base temperature of sixty degrees (60°) Fahrenheit, and a base pressure of two pounds (2#) above atmosphere assumed to be 14.4# shall constitute the well's deliverability. If the wellhead pressure at the end of the test is either greater or less than the deliverability standard pressure, the observed stabilized producing rate shall be converted to deliverability by use of the following formula:

$$D = R \frac{\left(p^2 - Pd^2 \right)}{\left(P^2 - PW^2 \right)}^{.85}$$

Where D — Deliverability
R — Observed producing rate
P — Shut-in pressure of the well, pounds absolute
Pd — Deliverability standard pressure, converted to pounds absolute
PW — Working well-head pressure at rate %, pounds absolute.

Shut-in well-head pressure shall be measured by dead weight gauge after the well has been shut in for approximately 72 hours. In no case shall the well have been shut in for less than 66 hours nor more than 78 hours at the time the shut-in pressure is taken. If the representative of the Commission should for any reason believe that the shut-in pressure taken upon a well is incorrect, he may require that such well be blown to clean fluids from the well bore, or take any such other reasonable steps that may be necessary to get a true pressure upon the well. In the event that more than one shut-in pressure is taken upon

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a well during the test period, the highest such shut-in pressure obtained will be used in figuring the deliverability of such well. The deliverability of each unconnected

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well which is recognized by the Commission as entitled to an allowable shall be estimated from its estimated capacity to produce considered in connection with the average relationship between the estimated capacity to produce and deliverability of all wells in the pool on which such tests have been made. When such well is connected to a pipeline its deliverability shall be redetermined by the method herein prescribed, and such allowable shall be made retroactive to the date when the well was first entitled to an allowable.

(b) The deliverability of each well in the pool shall be determined by the Conservation Department between May 1 and September 30 of each year unless otherwise ordered by the Commission; provided that, all deliverability tests taken since May 1, 1944, are hereby approved by the Commission and shall be effective as of June 1, 1945, and until new tests are taken thereafter. Deliverability tests may be taken at such other times as may be agreed upon by all of the operators within the pool, with the approval of the Conservation Officer, or at any other time within the discretion of the Conservation officer or upon order of the Commission. When any well is connected to a pipeline, its deliverability shall be determined by the Conservation Department.

(c) The Conservation Officer shall give written notice to each operator and producer in the pool of the taking of deliverability tests in sufficient time to have a representa-

tive present at the taking thereof. A written report of said tests, signed by the persons taking and witnessing the same, and approved by the Conservation Officer or his agent who took or supervised the same, shall be filed with the Commission, upon forms approved by it, which report shall be filed as soon as possible after the taking of the tests.

6. *WELL ALLOWABLES*—(a) In order to determine the amount of gas that should be produced from each well for any allowable period, a pool allocation factor shall be determined by dividing the total anticipated production from the pool for such period by the sum of the product of deliverability times the acreage factor for all the wells in the pool; then multiply the pool allocation factor by the product of deliverability times the acreage factor for the well; the result reached by such calculation shall constitute the well's allowable in cubic feet for such allowable period, provided however, if at any time during any allowable period it appears to the Conservation Officer that the actual market demand is greater or less than the anticipated production as above set out, then the Conservation Department shall immediately revise the allowable for the respective wells as set out in this paragraph. Acreage factor as used in this order shall mean the number of communitized acres in any unit. Allowable period as used in this order shall mean a calendar month.

(b) When a well is entitled to an allowable, the deliverability shall be determined and the operator shall meet all the requirements of this order, and when a well is entitled to an allowable during any allocation period it shall be given such allowable for the remainder of said period.

7. *ALLOWABLE PERIODS—HEARINGS*—There are hereby established two market demand periods for each year, one beginning April 1st and ending September 30th

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and the other beginning October 1, and ending March 31st, inclusive; and a reasonable time before said periods the Commission will conduct a hearing for the purpose of receiving nominations and determining the monthly market demand and anticipated monthly production of gas for the period that can be produced without waste; and based upon such determination allocations to each well entitled to an allowable shall be made for each month by the Conservation Department, with the approval of the Commission. If the market demand increases or decreases during said period, and the same can be produced without waste, the Conservation Department shall change the allocations for the ensuing monthly period in accordance with such change, and shall report same to the Commission; and at the next regular hearing the allowables will be readjusted and approved by the Commission. The Commission reserves the right to conduct a hearing at any time it deems same advisable; and additional hearings may be called upon application of the Conservation Officer, Conservation Attorney, or any interested party.

8. UNDERPRODUCTION AND OVERPRODUCTION —ALL underproduction and overproduction occurring in any allowable period, as determined by the calculation of the allocation formula, shall be adjusted and carried as a credit in favor of the wells or a charge against them, as the case may be, and added to or subtracted from the well's allowable for the next allowable period. When a well's overproduction equals three times its monthly current allowable, said well shall be immediately shut in by the operator and no gas produced therefrom until such overproduction is made up. In the event an operator refuses to shut in such well, the Conservation Officer is hereby directed to shut it in, place a seal thereon, and keep same shut in until the overage is made up. When a well con-

nected to a pipeline or other market outlet has accumulated underage in excess of three times its

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current monthly allowable, it shall be cancelled unless otherwise ordered by the Commission; provided that, where an operator has an allowable and is refused an outlet, the underproduction of such well shall not be cancelled.

9. All purchasers, takers, and producers of gas in the pool shall comply with the common purchaser and ratable taking provisions of the Oklahoma statutes by the equitable purchasing, producing, and taking of all the gas without discrimination in favor of one producer as against another; and they shall not discriminate in favor of their own production, whether in price or amount, and producers and takers shall take from all wells which they can reach by their own line or by lines provided by the well owners ratably in accordance with the allocations to wells established by this order.

10. In establishing allowables after the effective date of this order, only that acreage owned by the lessee operating a well shall be considered in the acreage factor until such time as the owners of working interests in the unit agree on a method of pooling their interests and producing the well, or until the Commission by proper order has after notice and hearing issued a pooling order for the unit.

1. All monthly reports required by this order or any order of the Commission relating to the production of gas from the Guymon-Hugoton Pool shall be filed with the Conservation Department not later than the 5th day of the month succeeding the month in which the gas was produced.

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12. Jurisdiction over this cause is hereby retained for the purpose of changing, modifying, adding to, or altering this order, if at any further hearing or from other evidence adduced before the Commission it appears that such change, modification, addition, or alteration should be made.

13. The several provisions of this order are separable, and the validity of any one is in nowise dependent upon the validity of any other. If any provision, section, paragraph, sentence, or cause hereof shall be held to be invalid or void for any reason, the same shall in no manner affect the validity of any other provision, section, paragraph, sentence, or cause of this order.

DONE AND PERFORMED by the Corporation Commission at its offices in the Capitol Office Building, Oklahoma City, Oklahoma, this 31st day of May, 1945.

CORPORATION COMMISSION OF THE
STATE OF OKLAHOMA

REFORD BOND — Chairman

RAY O. WEEMS — Vice-Chairman

Commissioner

ATTEST:

TOM McMURRAY
Secretary

(SEAL)

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Exhibit No. 120

OKLAHOMA CORPORATION COMMISSION
Oklahoma City, Oklahoma

February 21, 1950

STATE OF OKLAHOMA }
COUNTY OF OKLAHOMA } SS

The undersigned, Tom McMurray, Secretary of the Corporation Commission of the State of Oklahoma, hereby certifies that the Order attached hereto is a true and correct copy of the original Order on file with the Secretary of the Corporation Commission of the State of Oklahoma, and that the undersigned has the legal custody of the original Order of which the attached is a true and correct copy.

IN TESTIMONY WHEREOF, I hereunto set my hand and affix the seal of the Corporation Commission of the State of Oklahoma.

Done in Oklahoma City, Oklahoma, this the 21st day of February, 1950.

/s/ TOM McMURRAY
SECRETARY

(SEAL)

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BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

PEERLESS OIL AND GAS COMPANY a corporation Applicant vs. CITIES SERVICE GAS COMPANY a corporation, and all OPERATORS PRODUCERS and TAKERS OF NATURAL GAS in the STATE OF OKLAHOMA, and particularly in the GUYMON-HUGOTON FIELD Respondents The School Land Commission of the State of Oklahoma and Texas County Land & Royalty Owners Association Interveners	CLAUSE CD No. 1054 ORDER No. 19514

REPORT OF THE COMMISSION

This cause came on for hearing before the Corporation Commission of the State of Oklahoma in its Court Room in the Capitol Office Building, Oklahoma City, Oklahoma on the 26th day of November, 1945, at 10:00 o'clock, a. m., on the application of Peerless Oil and Gas Company, a corporation, and on the intervention of the School Land Commission of the State of Oklahoma and the Texas County Land and Royalty Owners Association, pursuant to order of the Commission setting the cause for hearing and proper and legal notice. The applicant, appearing by and through Earl Pruet, its attorney, the respondent Cities Service Gas Company, a corporation appearing by and through R. E. Cullison and Joe Rolston, Jr., the School Land Commis-

sion of the State of Oklahoma appearing by and through Walter Marlin and W. D. McBee its attorneys, and the Texas County Land and Royalty Owners Association appearing in person, and the other interested parties appearing not, and the Commission being represented by Floyd Green, Conservation Attorney, and all parties who appeared and entered their appearances herein having announced ready for trial, the applicant and interveners presented their evidence and rested, and Cities Service Gas Company introduced its evidence and rested; and all of said parties having introduced rebuttual evidence, the Commission closed the case and took the matter under advisement.

Now, on this 9th day of December, 1946, the Commission having considered the matter in conference and each of the Commissioners having read the entire record herein and being well and sufficiently advised, is of the opinion that the application should be granted to the following extent and finds as follows:

FINDINGS

1. That notice by publication of the filing of the application herein, the time and place of hearing thereon and the purpose of said hearing has been regularly given in all respects as required by law, and the Commission has jurisdiction of the subject matter embraced in said application and all parties interested therein and jurisdiction to issue and promulgate the hereinafter prescribed order.

2. That Peerless Oil and Gas Company is a corporation organized and existing under and by virtue of the laws of the State of Delaware and duly authorized to transact business in the State of Oklahoma.

3. Cities Service Gas Company is a corporation duly organized and existing under and by virtue of the laws of the State of Delaware and duly authorized to transact business in the State of Oklahoma.

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4. That this application involves the Guymon-Hugoton Field, which constitutes one common source of supply of gas, although there are three or more producing horizons that are interconnected which are known as the Crider, Winfield, and Harrington horizons and are found at an approximate depth of 2810 feet. There are approximately 300 wells in said pool, some of which are not now connected to pipeline and producing; that the virgin pressure in said pool was approximately 442 pounds, but at the present time it has been reduced to approximately 400 pounds; that the total reserves are estimated at seven trillion cubic feet of natural gas. The limits to the probably productive area of the Guymon-Hugoton pool in Texas County, Oklahoma covers part of the following described townships, to-wit:

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TOWNSHIPS:		RANGES:
1 North		12 to 17 E.C.M.
1, 2, 3 and 4 North		12 to 18 E.C.M.
5 and 6	and	12 to 19 E.C.M.

which area may be extended by the drilling of additional wells.

5. Peerless Oil and Gas Company is the owner of valid and subsisting oil and gas leases covering approximately 110,000 acres of minerals in the common source of supply aforesaid, which oil and gas leases include leases covering

Section 8, Township 4 North, Range 16 E.C.M., Texas County, Oklahoma,

and

Section 5, Township 4 North, Range 16 E.C.M., Texas County, Oklahoma

in which the two wells of Peerless Oil and Gas Company, referred to in applicant's petition, have been drilled.

6. The Texas County Land and Royalty Owners Association and the School Land Commission of the State of Oklahoma are the owners of minerals situated and located in the common source of supply aforesaid and are therefore interested in the matters and things involved herein.

7. Cities Service Gas Company, respondent herein, is the owner of various gas wells from which it is now and has been for a considerable length of time producing natural gas from the reservoir into which said well owned by Peerless Oil and Gas Company has been drilled.

8. Cities Service Gas Company is engaged in the transportation of natural gas in and from the Guymon-Hugoton, Oklahoma, gas field for a compensation, hire, and otherwise, from the same common source of supply or reservoir of natural gas into which said well of applicant has been drilled as aforesaid.

9. The production of natural gas in the Guymon-Hugoton gas field is in excess of the market demand.

10. The Cities Service Gas Company is now and has been at all times involved herein engaged in the business of buying and selling natural gas in the Guymon-Hugoton, Oklahoma, gas field and in the State of Oklahoma, and is a common purchaser of natural gas within the meaning of the statutes of the State of Oklahoma defining common purchasers. Cities Service Gas Company purchases natural gas from more than fifty persons, firms and corporations in the State of Oklahoma.

11. The Cities Service Gas Company is in fact a common purchaser of natural gas.

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12. The Cities Service Gas Company is now, and has been at all times involved herein, engaged in using the highways of the State of Oklahoma for the purpose of laying natural gas pipe lines for the purpose of transporting natural gas.

13. Cities Service Gas Company is in fact and in law a common carrier of natural gas.

14. Cities Service Gas Company is now and has been at all times involved herein, engaged in taking natural gas from a gas field, to-wit: the Guymon-Hugoton Oklahoma gas field, for purposes other than the purpose of developing a gas or oil field, or operating oil wells, or for the purpose of its own domestic use.

15. Cities Service Gas Company, a corporation, respondent herein, produces and purchases natural gas in the State of Oklahoma, transports the same and sells the same both directly and indirectly to the public for light, heat and power.

16. Cities Service Gas Company maintains and operates pipe lines for the transportation of natural gas in said Guymon-Hugoton Oklahoma gas field, one of which said pipe lines is in close proximity to said Section 8 in which the well of applicant involved herein has been drilled.

17. That Cities Service Gas Company, respondent herein, qualified to do business in the State of Oklahoma on the 19th day of April, 1946, and thereby accepted and agreed to comply with the laws of the State of Oklahoma covering its operations thereafter.

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18. Said respondent qualified to do business in the State of Oklahoma with full knowledge of the laws of the

laws of the State of Oklahoma relating to the ratable taking of natural gas and all statutes relating to natural gas, and was thereafter a party in the case of *Oklahoma Natural Gas Company vs. State*, 161 Okla. 104, 17 Pac (2) 488, which decision required ratable taking of gas under and by virtue of an order similar to that sought in the instant case.

19. That the operation of the respondent, Cities Services Gas Company, constitute it a transporter of natural gas.

20. A bona fide dispute has arisen between the applicant, Peerless Oil and Gas Company, a corporation, and respondent Cities Service Gas Company, as to the price, measurement and terms of the taking of natural gas by Cities Service Gas Company from the gas wells of Peerless Oil and Gas Company drilled into and producing from said common source of supply in Section 5 and 8, Township 4 North, Range 16 E.C.M., Texas County, Oklahoma.

21. Peerless Oil and Gas Company, prior to the time of the filing of this action, made a tender to Cities Service Gas Company of the natural gas to be produced from the wells in said Section 5 and 8, and Cities Service Gas Company signified its willingness to take the natural gas therefrom, but refused to pay more than 4¢ per thousand cubic feet of natural gas, measured at a pressure of 16.4 pounds absolute pressure per square inch, at the wellhead and refused to take natural gas from said wells unless applicant herein would dedicate all of its oil and gas leases covering approximately 110,000 acres of minerals in the Guymon-Hugoton pool for the life of said lease. A dispute as to price, measurement and terms of taking natural gas arose as a result thereof.

22. Cities Service Gas Company, respondent herein continued to refuse to take natural gas from said two wells

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unless applicant would dedicate all of its acreage in the field to Cities Service Gas Company at a price of 4¢ per thousand cubic feet at the wellhead for the life of the leases until long after the filing of this application when Peerless Oil and Gas Company, applicant herein, and Cities Service Gas Company, respondent herein, agreed that said wells be connected to the pipe line of Cities Service Gas Company and that Cities Service Gas Company would begin to take natural gas from said wells; that Cities Service Gas Company would begin making payment upon the purchase price of the natural gas taken by it from said wells at the rate of 4¢ per thousand cubic feet of natural gas at the wellhead, plus ½¢ per thousand cubic feet for gathering and delivering charges, or a total of 4½¢ per thousand cubic feet delivered into the pipelines of Cities Service Gas Company; without prejudice to a final determination of the controversy in regard to measurement and price pending before the Corporation Commission of the State of Oklahoma in the above entitled cause, and provided that in the event the Corporation Commission of the State of Oklahoma should fix a higher price of natural gas or a different measurement and such order should be finally upheld, Cities Service Gas Company would pay to Peerless Oil and Gas Company the difference between the amount so paid and the price so fixed by the Corporation Commission of the State of Oklahoma, all as evidenced by a stipulation on file herein.

23. The persons and corporations operating pipelines and transporting natural gas out of the Guymon-Hugoton Oklahoma gas field own or control a greater portion of the oil and gas leases in said field and control the outlets for natural gas produced in said field, and have therefore been able to dictate and have dictated the price, measurement and terms of the taking of natural gas taken in the Guymon-Hugoton Oklahoma gas field. Producers without

a connection have been required to accept the price, measurement and terms offered by operators of pipelines in said field or shut down their wells.

24. There is no competitive market of natural gas in the Guymon-Hugoton Oklahoma oil field, but said market has been stifled by reason of the control of acreage and markets by the pipeline operators in said field, and as a result natural gas is being taken out of the Guymon-Hugoton Oklahoma Gas field at a price far less than its actual, or fair market value, and at a price which is far less than the value of natural gas for heating and other purposes as compared to the value of other fuels.

25. As a result of the controlled market, market prices, measurement and terms of taking of natural gas in the Guymon-Hugoton field, one of the greatest resources of the State of Oklahoma, to-wit: natural gas, is being taken out of the Guymon-Hugoton Oklahoma field and out of the State of Oklahoma at a price which is far less than its replacement value.

26. Various purchasers of natural gas, in the Guymon-Hugoton field, purchase natural gas from different producers under contracts providing for different prices, terms and conditions.

[8094]

27. Cities Service Gas Company purchases natural gas in the Guymon-Hugoton Oklahoma gas field under contracts containing different terms and conditions as evidenced by its contract with Skelly Oil Company, its contract with Republic Natural Gas Company, and its contract with Hagy, Harrington and Marsh.

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28. The operations of the respondent, Cities Service Gas Company, a corporation, constitute it a transporter of natural gas.

29. The operations of respondent, Cities Service Gas Company, constitute it a common carrier.

30. The operations of the respondent, Cities Service Gas Company, constitute it a common purchaser of natural gas.

31. The operations of respondent, Cities Service Gas Company, constitute it a public utility.

32. The taking of natural gas from the Guymon-Hugoton Oklahoma field at prices and under terms and measurement now prevalent in said field results in and causes:

(a) Economic waste of a great natural resource, to-wit: natural gas;

(b) Actual physical waste of natural gas;

(c) Loss to the royalty owners in said field;

(d) Loss to the State of Oklahoma in revenues in the form of gross production taxes.

(e) Inequitable taking of natural gas from the common source of supply involved.

(f) Discrimination against various producers in the field.

3. By reason of the dispute between the Peerless Oil and Gas Company, applicant herein, and the respondent, Cities Service Gas Company, a corporation, as to the price and terms of the taking of natural gas from said wells of applicant, this Commission has authority to fix and should

fix a minimum price and terms for the taking of natural gas to be taken in the Guymon-Hugoton field.

34. For the purpose of preventing waste, economic and physical, or natural gas, for the purpose of protecting correlative rights, and to insure the greatest ultimate recovery of natural gas from the comomn reservoir involved, this Commission should not permit natural gas to be taken out of the producing formations in the Guymon-Hugoton field, at a price of less than 7¢ per thousand cubic feet of natural gas measured at a pressure of 14.65 pounds absolute pressure per square inch.

ORDER

IT IS THEREFORE ORDERED by the Corporation Commission of the State of Oklahoma as follows:

1. That no natural gas shall be taken out of the producing structures or formations in the Guymon-Hugoton field in Texas County, Oklahoma, at a price, at the wellhead, of less than 7¢ per thousand cubic feet of natural gas measured at a pressure of 14.65 pounds absolute pressure per square inch.

2. This order shall be effective as of January 1st, 1947.

DONE AND PERFORMED by the Corporation Commission at its office in the Capitol office Building, Oklahoma City, Oklahoma, this 9th day of December, 1946.

CORPORATION COMMISSION OF OKLAHOMA,

Reford Bond	Chairman
Ray O. Weems	Vice-Chairman
Wm. J. Armstrong	Commissioner

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ATTEST:

Tom McMurray
Secretary

[8095]

Exhibit No. 120-A

OKLAHOMA CORPORATION COMMISSION
Oklahoma City, Oklahoma

February 21, 1950

STATE OF OKLAHOMA }
COUNTY OF OKLAHOMA } SS

The undersigned, Tom McMurray, Secretary of the Corporation Commission of the State of Oklahoma, hereby certifies that the Order attached hereto is a true and correct copy of the original Order on file with the Secretary of the Corporation Commission of the State of Oklahoma, and that the undersigned has the legal custody of the original Order of which the attached is a true and correct copy.

IN TESTIMONY WHEREOF, I hereunto set my hand and affix the seal of the Corporation Commission of the State of Oklahoma.

Done in Oklahoma City, Oklahoma, this the 21st day of February, 1950.

/s/ TOM MC MURRAY
SECRETARY.

(SEAL)

[8096]

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF OKLAHOMA

PEERLESS OIL AND GAS COMPANY, a corporation, Applicant vs CITIES SERVICE GAS COMPANY, A corporation and ALL OPERATORS PRODUCERS AND TAKERS OF NATURAL GAS IN THE STATE OF OKLAHOMA, and particularly in the GUYMON-HUGOTON FIELD, Respondents	CAUSE CD No. 1054
THE SCHOOL LAND COMMISSION OF THE State of Oklahoma and TEXAS COUNTY LAND & ROYALTY OWNERS ASSOCIATION Interveners	ORDER No. 19702

REPORT OF THE COMMISSION

This cause came on for hearing before the Corporation Commission of Oklahoma on the 31st day of January, 1947, at 1:30 o'clock, p. m., in the Commission's Court Room, Capitol Office Building, Oklahoma City, Oklahoma; the Honorable Reford Bond, Chairman, Ray O. Weems, Vice-Chairman and Ray C. Jones, Commissioner, sitting. R. M. Williams, Attorney of Bartlesville and Harry Turner, Attorney of Oklahoma City, appeared for the applicant, Phillips Petroleum Company; Earl Pruet, Attorney of Oklahoma

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City, appeared for the respondent Peerless Oil & Gas Company, and Floyd Green, Conservation Attorney, appeared for the Commission.

After hearing the cause, the matter was continued until February 4th, 1947, at 1:30 o'clock, p. m. for the purpose of hearing oral argument. On February 4th, 1947, after hearing oral argument and being well and sufficiently advised in the premises, the Commission denied the application and therefore finds as follows:

FINDINGS

1. That this is an application of the Phillips Petroleum Company, for an order vacating Orders Numbers 19514 and 19515 heretofore issued in this cause on the 9th day of December, 1946.

2. That this Commission has jurisdiction over the subject matter herein, that notice has been given in all respects as required by law, and that protests have been filed to the granting of the order.

3. That this cause was originally heard prior to December 9th, 1946, and that Orders Numbers 19514 and 19515 were issued pursuant to notice regularly given and that the applicant herein, Phillips Petroleum Company had notice of the proceedings and did not enter an appearance therein.

4. That Order No. 19514 had for its purpose the fixing of a minimum price for natural gas at the wellhead in the Guymon-Hugoton Field, which price was applicable to all producers, purchasers and takers of gas in the field; that the applicant herein, Phillips Petroleum Company, is both a producer and taker of natural gas in the field and trans-

ports the gas produced from its leases in Texas County, across the Oklahoma line to a gasoline plant located in Texas, one-half mile south of the Oklahoma line adjacent to Texas County, Oklahoma; that all of the gas produced by Phillips Petroleum Company in Texas County, Oklahoma, is transported to said plant where 6/10ths of one gallon of liquid hydrocarbons are extracted from each thousand cubic feet of gas produced in Texas County, Oklahoma; that the residue gas is then transported by Phillips Petroleum Company from said plant to the nearby location where same is delivered to the Panhandle Eastern Pipe Line Company at a price presently in the amount of 4.67 cents per thousand cubic feet; that the applicant herein then transports daily some 80,000 gallons of liquid hydrocarbons extracted from the natural gas at the plant in Texas, to another plant owned by applicant near Borger, Texas, where the liquid hydrocarbons are then further refined and sold by the applicant herein; that the larger percentage of the liquid hydrocarbons extracted is 26-70 gasoline which has a current market value of between 5 and 5-1/4 cents per gallon; that the applicant herein, Phillips Petroleum Company, is now realizing from the natural gas produced in the Guymon-Hugoton Field, the equivalent of approximately 7¢ per thousand cubic feet at the wellhead within the terms and meaning of Orders Nos. 19514 and 19515; that the applicant, Phillips Petroleum Company, did not see fit to introduce any evidence as to profits or leases from the production of natural gas in

[8097]

the Guymon-Hugoton Field and since the application filed herein alleged hardship if forced to comply with Orders Nos. 19514 and 19515, it was incumbent upon the applicant to introduce proof showing wherein such hardship would occur.

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5. That applicants complain that paragraph 1 of Order No. 19514 and paragraph 4 of Order No. 19515 prohibit said applicant from producing any natural gas in the Guymon-Hugoton Field, and taking same from the formation because of the requirement that said gas must be sold at a price of 7¢ per thousand cubic feet at the wellhead; that said orders were meant to prohibit the production of natural gas from the producing formations in said field unless same was sold at a price of 7¢ per thousand cubic feet on the measurement basis provided for in said orders, if same were sold, but if not sold, that said gas should be so utilized and/or sold, that the producer would realize therefrom the equivalent of 7¢ per thousand cubic feet at the wellhead and on the pressure basis provided for in Orders Nos. 19514 and 19515: that the applicant, Phillips Petroleum Company, is realizing from the utilization and sale of natural gas produced by it in the Guymon Field, the equivalent of 7¢ per thousand cubic feet at the wellhead, on the pressure basis of measurement provided for in said orders for all natural gas produced by it in the Guymon-Hugoton Field: therefore in that respect applicant is already complying with Orders Nos. 19514 and 19515.

6. That inefficient and wasteful utilization of natural gas produced in said field have resulted and will result, unless producers in said field receive for said natural gas or realize the equivalent of 7¢ per thousand cubic feet of natural gas at the wellhead, measured at a pressure of 14.65 pounds absolute pressure per square inch; that the price presently being paid for natural gas varies throughout the field with no uniform price and that this Commission, unless it fixes a uniform price for the field, is permitting discrimination in price which adversely affects many producers and royalty owners: that the price being paid has no relation to the intrinsic value of the natural gas and is not

a comparable price with other fuels; that it has no relation to the replacement value of the natural gas and one of Oklahoma's natural resources is being dissipated and wasted all to the detriment of the producers, royalty owners, School Land Commission, and the State of Oklahoma, and unless a price is fixed that has some relation to its actual value, the inefficient and wasteful utilization of gas from the Hugoton Field will result in great losses of one of Oklahoma's most valuable resources.

7. That applicant herein, Phillips Petroleum Company, is not injured by the application of a 7¢ price of all gas produced by it in the Hugoton Field since it is presently realizing approximately that amount at this time.

8. That this application should be denied in the interest of preventing: (a)—economic waste of a great natural resource to wit: Natural gas, (b)—actual physical waste of natural gas in the Hugoton Field, (c)—loss to the producers and royalty owners in said field, (d)—loss to the State of Oklahoma in revenues in the form of gross production tax and loss to the schools of the State of Oklahoma in the form of lessening royalties accruing to the School Land Commission, (e)—the inequitable taking of natural gas from the common source of supply owned by all; (f)—discrimination as to prices paid throughout the field, which discrimination adversely affects many royalty owners and producers, (g)—the inefficient and wasteful utilization of natural gas.

9. That this application should be denied.

ORDER

IT IS THEREFORE ORDERED by the Corporation Commission of the State of Oklahoma, that this application

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to vacate Orders Numbers 19514 and 19515 heretofore issued by this Commission in this cause on the 9th day of December, 1946, be and the same is hereby denied.

DONE AND PERFORMED this the 4th day of February, 1947

CORPORATION COMMISSION OF OKLAHOMA

Reford Bond — Chairman

Ray O. Weems — Vice-Chairman

Commissioner

ATTEST:

Tom McMurray
Secretary

(S E A L)

[8165]

Exhibit No. 124

Summary of Lists
of Gas Interest Owners Paid by
Phillips Petroleum Company
As of July, 1950

Total number currently paid or credited	12,456
Number of "Suspense" items, each representing one or more interests in accounts payable	748

Exclusive of suspense items, the following numbers represent the different interest owners in the area or operations

named, which are included in, but do not entirely comprise the above total:

		Producers	*Royalty Owners*
Leases to	Sherman Plant	25	408
"	" Hansford	10	552
"	" Area "A"	10	56
"	" Panhandle Field Lines	131	1,209
"	" Pampa Field Lines	147	795
"	" Goldsmith Plant	50	243
"	" Crane	14	17
"	" Fullerton	42	297
"	" Seminole	65	246
"	" Eunice	41	98
"	" Hobbs & Lee Plants	37	105
"	" Edmond Plt. (Excl. Unit Gas)	12	87
"	" Hunton Edmond (Unit)	71	1,210
"	" Philrock System	1	25
"	in Carthage Field	7	72
"	in Hico-Knowles Field	8	46
"	in Chocolate Bayou Field	2	355
"	to Arkansas Louisiana Gas Co.	3	43
	Totals	676	5,864

[8394]

Exhibit No. 134

MAY 1, 1951

MEMORANDUM TO ALL GAS WELL OPERATORS:

Effective April 1, 1951, all gas allocations for prorated fields will be calculated using the balancing formula which in

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the past has been used only in determining allocations for fields operating with the six-months' balance rule.

To determine the allocation for April, 1951, by this method we simply apply the difference between the production and nomination for the month of February, 1951, to our April, 1951, nomination. (The month of February, 1951, is used to adjust April's nomination because it is the latest month for which we have both the nomination and production figure.) If the production for February exceeds the February nomination, the difference is *added* to the April nomination and vice versa.

For example, in determining the allocation for the Boyce Field, District #2, the following figures were use:

February Nomination	239,250 Mcf
February Production	210,036 Mcf
February Difference	29,214 Mcf
April Nomination	270,750 Mcf
February Difference	29,214 Mcf
April Allocation	241,536 Mcf

This "balancing formula" is very simple to use and has proved to be our best method of keeping gas reservoirs in balance over a long period of proration. Because it is workable in the proration of both large and small gas reservoirs, we are adopting it for *all* prorated fields (except those which have special methods set in their respective field rules.)

Yours very truly

/s/ JACK K. BAUMEL .
Jack K. Baumel
Chief Engineer

EZ/ef
Gas Department

[8395]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

OIL AND GAS DOCKETS NOS. 108, 120, 123, 124, 125, 126, 128, 129, 132, and 146

IN RE: CONSERVATION AND PREVENTION OF WASTE OF CRUDE PETROLEUM AND NATURAL GAS IN THE STATE OF TEXAS
#20 - 20,861

Austin, Texas
April 30, 1951

ORDER FIXING THE ALLOWABLE PRODUCTION OF SWEET AND SOUR NATURAL GAS IN THE STATE OF TEXAS FOR THE MONTH OF MAY, 1951

WHEREAS, Pursuant to notice and hearing for the time and in the manner required by law, the Railroad Commission of Texas held a hearing on April 15, 1951, for the purpose of hearing evidence on the question of waste of crude oil and natural gas in the State of Texas, and for the further purpose of determining the aggregate daily capacity to produce of all gas wells in common reservoirs, and as nearly as possible, the daily volume of gas from each common reservoir that will be produced from gas wells during the month of May, 1951, to be utilized as permitted by House Bill No. 266 as amended; and

WHEREAS, From evidence presented to the Commission, together with that which was received by the Commission at the various hearings held from time to time involving the proration and regulation of gas production

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from the various fields listed below, the Commission finds and determines as follows:

THAT, The findings and facts contained and set forth in the basic orders for each of the fields listed below are approved and readopted as the findings of fact which will serve as a basis for this order, for the month of May, 1951, and the Commission finds that said findings are supported by the evidence received and considered at such hearings and from personal study investigation made by the Commission.

IT IS THEREFORE ORDERED THAT, Except as heretofore and hereinafter otherwise ordered, all of the provisions, directions, rules and regulations and orders set forth and contained in the basic orders relating to each of the fields listed below be and the same are hereby readopted and promulgated and continued in force and effect during the month of May, 1951, and the same shall continue thereafter in force and effect until otherwise ordered by the Commission.

IT IS FURTHER ORDERED THAT, Effective 7 a m, May 1, 1951, and until further notice by order of the Commission, the daily allowable gas production for gas wells computed on the basis set forth in House Bill No. 266, as amended, and in the manner stated in the basic orders for the various fields listed below, shall be allocated to and are hereby fixed as hereinafter shown and set out and said amounts here and hereby authorized and permitted to be produced from the fields therein for said period are as follows:

* * *

[8468]

Exhibit No. 134-A

RAILROAD COMMISSION OF TEXAS
OIL & GAS DIVISION

TEXAS-HUGOTON FIELD—SWEET & SOUR GAS
OFFICIAL ROCK PRESSURE AND DELIVERABILITY DETERMINATIONS
ON ALL CONNECTED GAS WELLS IN THE TEXAS-HUGOTON FIELD

APRIL 1, 1951

APPROVED: JACK K. BAUMEL, CHIEF ENGINEER

BY: J. G. McCLINTOCK, DEPUTY SUPERVISOR

NOMINATION—MONTHLY	15,104,958
UNDERPRODUCTION FROM FEBRUARY—MONTHLY	588,083
TOTAL ACRES x DELIVERABILITY	1,099,665,158
NET ACRES x DELIVERABILITY	1,070,119,175
NET ALLOCATION—MONTHLY	14,516,875
NET ALLOCATION MINUS RESTRICTED ALLOWABLES	14,177,794
FACTOR	.01324880
NO. WELLS	551

CONNECTED ALLOWABLES M. C. F.

KERR-McGEE OIL INDUSTRIES	1,134,231
PHILLIPS PETROLEUM COMPANY	11,210,542
SHAMROCK OIL & GAS CORPORATION	2,172,104

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Operators are hereby notified as to the most recent deliverabilities and rock pressures on all connected gas wells in the Texas-Hugoton area of the Panhandle District. These figures should be used in making reports to the Commission until further notification. Operators are requested to check this report with their records and advise this office of any discrepancies.

This schedule is calculated on deliverabilities of 1950. Acreage assigned to wells is in accordance with Order No. 10-12,677, dated June 28, 1949.

The field allocation was adjusted in accordance with the Commission Memorandum dated February 28, 1950. Wells designated by (*) are restricted to their maximum production for any one month during the previous balancing period.

[8485]

Exhibit No. 134-B

RAILROAD COMMISSION OF TEXAS
OIL & GAS DIVISION
PAMPA, TEXAS

GAS PRORATION SCHEDULE FOR WEST PANHANDLE FIELD—EFFECTIVE 7:00 A. M. APRIL 1, 1951, AND UNTIL FURTHER NOTICE

JACK K. BAUMEL, CHIEF ENGINEER

MONTHLY WELL ALLOWABLES FOR NATURAL GAS WELLS PRODUCING CRUDE OIL IN THE WEST PANHANDE FIELD

8485

INSTRUCTIONS:

(1) Operators are requested to advise this office of any differences which may exist between this schedule and their records.

(2) Purchasers of gas shal lnotify this office of any connections as outlined in the Oil & Gas Circular 16-B, Rule 8, Panhandle District of Texas.

Note: Wells designated by (*) are restricted to their maximum production for any one month during the previous balancing period.

No well on this schedule has been assigned an allowable in excess of 25% of its daily open flow potential. Wells that have been reduced not to exceed 25% of their daily open flow potentials are designated by a pound mark (#).

Wells designated by "H" are wells that are exempted from the proration orders by the Railroad Commission Order No. 10-16, 176, dated August 1, 1949, and are assigned an allowable of 25% of their AOF. Of the 850,680 MCF assigned these wells, only 840,-000 MCF has been deducted from the field allocation. *Allowables assigned to six (6) exempt wells was deducted from field allocation.

Wells with (%) in status column are 25% wells that are not allowed to accumulate underproduction but have accumulated underproduction previously when they were not in the 25% status.

CONNECTION ALLOWABLES—MCF

Cabot Carbon Company	866,358
Canadian River Gas Company	10,234,509

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Canadian River Gas Company—Exempt (Helium Wells)	850,680
Cities Service Gas Company	6,446,975
Cities Service Oil Company	92,316
City of Dumas	50,138
City of Sunray	8,718
Field Fuel	19,630
Henderson Trust Company	955,629
J. M. Huber Corporation	1,978,663
Magnolia Petroleum Company	944,100
Natural Gas Pipeline Company	9,424,030
Northern Natural Gas Company	3,763,785
Panhandle Eastern Pipe Line Company	6,636,306
Phillips Petroleum Company	18,033,362
Portland Gasoline Company	391,350
Producers Utilities Corporation	10,228
Shamrock Oil & Gas Corporation	8,898,259
Shell Oil Company	68,721
Skelly Oil Company	535,825
Texas Gas & Power Corporation	168,979
West Texas Gas Company	1,313,819
*Exempt Wells	114,090

Proration Basis: As outlined in the Commission Oil & Gas Docket No. 108, #10-13, 196, dated September 24, 1948, and as amended by Oil & Gas Docket No. 108, #10-13, 783, dated January 10, 1949. The field allocation was adjusted in accordance with the Commission Memorandum dated April 7, 1950.

Total Number of Wells — 1998

Exhibit No. 149

[Note: This exhibit was rejected by the Examiner at record 4341 and was not received in evidence. An offer of proof was made on page 4341 of the record by the Phillips Petroleum Company.]

EXPLORATION AND DEVELOPMENT COSTS AND RATIO TO NET INVESTMENT

	35 Natural Gas Companies In Southwest (1)		30 Oil Companies (2)		Phillips Petroleum Company	
	In Millions Of Dollars	Percent	In Millions Of Dollars	Percent	In Millions Of Dollars	Percent
Net Investment (Gas Plant Only for Natural Gas Companies)	$	%	$	%	$	
1946	753.9		5,369.3		236.6	
1947	1,067.7		6,262.4		291.4	
1948	1,310.4		7,429.4		395.6	
1949	1,664.1		8,705.8		429.9	
1950					465.8	
Land, Geological & Geophysical Expenditures	$	%	$	%	$	
1946	0.17	0.02	97.0	1.8	6.6	2.8
1947	0.05	0.00	125.0	2.0	7.6	2.6
1948	0.05	0.00	156.0	2.1	10.5	2.7
1949	0.15	0.01	162.0	1.9	8.3	1.9
1950					9.0	1.9
Dry Hole Expenditures	$	%	$	%	$	
1946	0.75	0.10	(2)		5.1	2.2
1947	0.43	0.04	(2)		4.9	1.7
1948	0.49	0.04	(2)		6.1	1.5
1949	1.09	0.06	(2)		5.9	1.4
1950					5.5	1.2
Delay Rentals	$	%	$	%	$	
1946	0.88	0.12	44.0	0.8	2.1	0.9
1947	1.00	0.09	47.0	0.8	2.2	0.8
1948	1.14	0.09	53.0	0.7	2.8	0.7
1949	0.95	0.06	63.0	0.7	4.8	1.1
1950					4.7	1.0

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ditions to Leasehold estment	$	%	$	%	$	%
1946	0.70	0.09	(2)		6.8	2.9
1947	0.94	0.09	(2)		9.0	3.1
1948	0.84	0.06	(2)		18.4	4.7
1949	1.79	0.11	(2)		5.7	1.3
1950					11.0	2.4

tal Exploration Costs (Including asehold Additions)	$	%	$	%	$	%
1946	2.49	0.33	(2)		20.6	8.7
1947	2.42	0.23	(2)		23.7	8.1
1948	2.53	0.19	(2)		37.9	9.6
1949	3.98	0.24	(2)		24.7	5.7
1950					30.3	6.5

st of Drilling & Equipping oducing Wells	$	%	$	%	$	%
1946	3.93	0.52	(2)		14.4	6.1
1947	2.56	0.24	(2)		22.0	7.5
1948	3.86	0.29	(2)		36.7	9.3
1949	7.24	0.43	(2)		14.5	3.4
1950					23.7	5.1

tal Expenditures for Exploration Development	$	%	$	%	$	%
1946	6.42	0.85	787.0	14.7	35.1	14.8
1947	4.98	0.47	999.0	16.0	45.7	15.7
1948	6.39	0.49	1,329.0	17.9	74.5	18.8
1949	11.22	0.67	1,185.0	13.6	39.2	9.1
1950					54.0	11.6

[8910]

Source: Annual reports filed with F. P. C. and F. P. C. Statistics. See attached list of companies included.

Source: Financial Analysis of Thirty Oil Companies published by The Chase National Bank which does not furnish a detail of some of the individual items shown for the Natural Gas Companies and for Phillips Petroleum Company.

e Year 1950 is not available for the Natural Gas Companies or the 30 Oil Companies.

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[8911]

LIST OF THE CLASS A & B NATURAL GAS COMPANIES REPORTING TO THE FEDERAL POWER COMMISSION WHICH OPERATE IN THE SEVEN (7) SOUTHWESTERN STATES OF ARKANSAS, KANSAS, LOUISIANA, MISSISSIPPI, NEW MEXICO, OKLAHOMA & TEXAS

Arkansas Louisiana Gas Company
Arkansas Oklahoma Gas Company
Canadian River Gas Company
Central Gas Utilities, The
Cities Service Gas Company
Colorado Interstate Gas Company
Consolidated Gas Utilities Corporation
El Paso Gas Transportation Corporation
El Paso Natural Gas Company
Hope Producing Company
Interstate Natural Gas Company, Inc.
Kansas Colorado Utilities, Inc.
Kansas Nebraska Natural Gas Company, Inc.
Kansas Power & Light Company, The
Lone Star Gas Company
Louisiana Nevada Transit Company
Memphis Natural Gas Company
Michigan Wisconsin Pipe Line Company
Mississippi River Fuel Corporation
Natural Gas Pipeline Company of America
Northern Natural Gas Company
Panhandle Eastern Pipeline Company
Public Service Corporation of Texas
Renosa Pipe Line Company
Southern Natural Gas Company
Southern Union Gas Company

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Southwestern Public Service Company
Tennessee Gas Transmission Company
Texas Eastern Transmission Corporation
Texas Gas Transmission Corporation
Texoma Natural Gas Company
Union Gas System, Incorporated
United Gas Pipe Line Company
West Texas Gas Company
Zenith Gas System, Incorporated

Class A & B Natural Gas Companies are those having annual gas operating revenues in excess of $250,000.

[8912]

LIST OF THE COMPANIES INCLUDED IN THE "FINANCIAL ANALYSIS OF THIRTY (30) OIL COMPANIES" PUBLISHED BY THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

Amerada Petroleum Corporation
Atlantic Refining Company (The)
Barnsdall Oil Company (1946-1948 Inclusive) See Note (1)
Cities Service Company (1949 Only) See Note (1)
Continental Oil Company
Gulf Oil Corporation
Houston Oil Company of Texas
Lion Oil Company
Louisiana Land and Exploration Company (The)
Mid-Continent Petroleum Corporation
Ohio Oil Company (The)
Pacific Western Oil Corporation
Phillips Petroleum Company

Plymouth Oil Company
Pure Oil Company (The)
Richfield Oil Corporation
Seaboard Oil Company of Delaware
Shell Oil Company See Note (2)
Sinclair Oil Corporation
Skelly Oil Company
Socony-Vacuum Oil Company
Standard Oil Company of California
Standard Oil Company (Indiana)
Standard Oil Company (New Jersey)
Standard Oil Company (Ohio) (The)
Sun Oil Company
Texas Company (The)
Texas Gulf Producing Company
Texas Pacific Coal and Oil Company
Tide Water Associated Oil Company
Union Oil Company of California

(1) Cities Service Company has replaced Barnsdall Oil Company. The latter has been merged with Sunray Oil Corporation.

(2) Name of Shell Oil Company prior to 1949 was Shell Union Oil Corporation.

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[9461] Exhibit No. 169

1298

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of January 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 1.6# P.S.I. Avg. Tested GPM 1.05 De-ethanized Recovered GPM 1.32

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 689	Gas From Oil Wells (Casinghead) Detail on Form GP-2	29,671	919,806
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	29,671	919,806

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,253	38,838	7. Repressuring	0	0
2. Plant Fuel	2,191	67,931	8. Recycling	0	0
3. Lease Use	2,282	70,749	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	481	14,912
5. Gas Lift	6,470	200,563	11. Vented to Air	16,994	526,813
6. Press. Maint.	0	0	12. TOTALS	29,671	919,806

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Humble Oil & Refining Co.	Crane, Texas	Domestic	2,790
Southern Union Gas Co.	Crane, Texas	Domestic	10,723
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	1,402

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Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	16	509	6. Propane	0	0
3. Gasoline (as made)	932	28,897	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

CTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	S-8230	60,000	28,897
Scrubber Oil	S-2666	515	509
		60,515	29,406

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	509	28,897					29,406
6. Delivered	509	28,897					29,406
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of February, 19 50

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number S-35-A Approved this day of Feb. 15, 1950, 19

Void After 7:00 A. M. March 1, 19 50 BY RAILROAD COMMISSION OF TEXAS E. O. Weyel

(Follow Instructions on Reverse Side)

[9462]

GENERAL INSTRUCTIONS

Form GP-1

1. The address as required on this report shall be clear and definite as to Street Number, City and State.

2. This report is required of all plants extracting hydrocarbon liquids from natural gas, including gasoline, butane, propane, condensate, kerosene, or other derivatives from natural gas, and refinery storage vapors, including recovery of liquids from drips. All gas volumes must be reported at a base pressure of 14.4 pounds plus four ounces. All liquid quantities shown on this report shall be in barrels of 42 U. S. gallons based upon actual physical gauges computed from 100% U. S. Tank Tables or other method of measurement approved by the Commission. DO NOT use fractions of thousands of cubic feet of gas, or fractions of barrels of liquids on this report.

3. Include on this report only gas and vapors taken into gas processing plants. Make a separate report for each plant. Report on Form 3-286-A, Gas Production Report, all gas taken from wells and not taken into plant. Report on Form GP-1 all liquids recovered from drips and show in space provided for "Type of Plant" the word "Drip."

4. This report shall be filed in four (4) duplicate originals with the Deputy Supervisor of the Railroad Commission of Texas for the district in which the plant is located as soon after the first of the month as possible for the preceding month, and never later than the fifteenth of the month.

5. Do not report on this form operations of pressure maintenance or repressuring plant where gas is not processed for the recovery of liquid hydrocarbons; Use Form PM-1. If any space does not apply, fill in the word "None." Please use typewriter if possible.

6. Gas processing plants are required to file Form GP-1 to report plant operations; Form GP-2 to report production of all natural gas taken into plant; and Form GP-3 to report injection into reservoirs where pressure maintenance, recycling or repressuring is conducted. Where gas is taken into a plant from a transmission line for processing, show in space for "Number of Wells" the words "Main Line." (Does not apply to local gathering systems.) Show source of "Gas from Other Sources" and "Refinery and Storage Vapors."

7. In section "Disposition of Residue" show as follows: **Fuel System:** Gas used by yourself, sold, or given to others for use in drilling operations or for pumping wells; **Lease Use:** Gas used by yourself, sold or given for use in lease dwellings and other domestic uses; **Gas Lift (Jetting):** Gas used, sold, or given for injection through injection wells into oil sands to increase gas drive energy in secondary recovery operations—**Restoring** gas-drive energy in depleted reservoirs. **Pressure Maintenance:** Gas used, sold or given for injection into oil sands to **maintain pressure** at or near initial reservoir pressure or pressures at time injection of gas started. **Recycling:** Gas returned to original reservoirs after extraction of liquid hydrocarbons. **Transmission Line:** Gas to pipe line generally for the light and fuel market.

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INSTRUCTIONS FORM GP-2

1. Report on this form in four (4) duplicate originals all natural gas taken into plant. DO NOT include any natural gas produced and sold or otherwise disposed of and not taken into plant on this form, but report on Form 3-266-A.

2. Report the volume of gas taken from oil wells (i.e., casinghead) by leases. The volume of gas taken from gas wells shall be reported separately for each well which is assigned a gas allowable on schedules issued by the Commission. In cases where no schedules of allowables are issued by the Commission, volumes of gas taken from gas wells may be reported by leases where two or more wells are located on the same lease and producing from the same reservoir, and where the average production does not exceed 100,000 cubic feet per well per day; or where the total production of all wells on the lease does not exceed 25% of the open flow potential of the well on the lease having the lowest potential.

3. Show under column "Kind of Gas" whether "Sweet," "sour" (from gas wells), or "casinghead" gas. (Gas produced with oil.)

4. Prepare a separate Form GP-2 for each reservoir. Segregate production by counties if more than one county included in reservoir; and segregate by kinds of gas (i.e., "sweet," "sour" gas from gas wells, and "casinghead" gas from oil wells). Show name of well owner, lease name, kind of gas, well number, daily open flow potential, allowable (if assigned on schedule) and monthly take for each gas well. If permitted to report by lease totals as provided by paragraph 2, show complete description of each gas well. All wells classified as gas wells shall be reported each month whether produced or shut-in. If no take show "None." Show the name of well owner, lease name, kind of gas (casinghead), well numbers, and the monthly take from each lease in reporting gas taken from oil wells. If gas is classified as dry sweet, or dry sour, and produced from a Brandenhead, shows the letters "BH" after the well number.

5. Gas wells producing condensate and /or crude oil which are equipped with separators and where liquids are also gathered from leases are required to be reported separately and the take from each well shown. Report on Form BO-1 all liquids gathered from separators on leases and not recovered in plants.

6. If any well or wells are disconnected from or any new wells connected to reporting company's gathering system, such changes shall be reported to the Commission by letter. Attach Forms GP-2 to Form GP-1 for each plant.

INSTRUCTIONS FORM GP-3

1. Gas processing plants which return gas to reservoirs in pressure maintenance, recycling or repressuring operations are required to report on this form the volume of gas or residue injected into each reservoir through each injection well.

2. This report shall be prepared in four (4) duplicate originals and attached to Form GP-1.

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

9463

Operator Phillips Petroleum Company Month of February, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 1.9# P.S.I. Avg. Tested GPM 1.05 De-ethanized ~~Rejected~~ GPM 1.38

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1302

[94631]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 692	Gas From Oil Wells (Casinghead) Detail on Form GP-2	29,176	816,952
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	29,176	816,952

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,285	35,990	7. Repressuring	0	0
2. Plant Fuel	2,211	61,919	8. Recycling	0	0
3. Lease Use	1,937	54,236	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	473	13,249
5. Gas Lift	6,106	170,975	11. Vented to Air	17,164	480,583
6. Press. Maint.	0	0	12. TOTALS	29,176	816,952

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Humble Oil & Refining Co.	Crane, Texas	Domestic	2,867
Southern Union Gas Co.	Crane, Texas	Domestic	8,187
Texas-New Mexico Pipe Line Co.	Crane, Texas	Domestic	2,195

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

1303

[9464]

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	18	496	6. Propane	0	0
3. Gasoline (as made)	956	26,778	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	List Tenders in Numerical Order ACTUAL DELIVERIES Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-8344	60,000	26,778
			Scrubber Oil	8-3229	515	496
TOTALS					60,515	27,274

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	496	26,778					27,274
6. Delivered	496	26,778					27,274
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of March, 19 50

/s/ W. L. Mehaffey

Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-B Approved this 15th day of March, 1950

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. April 1, 1950 BY /s/ Jim B. Thomas

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of March 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 2.18# P.S.I. Avg. Tested GPM .996 De-ethanized Recovered Condy 1.53

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 699	Gas From Oil Wells (Casinghead) Detail on Form GP-2	28,914	896,346
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	28,914	896,346

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,417	43,945	7. Repressuring	0	0
2. Plant Fuel	2,107	65,308	8. Recycling	0	0
3. Lease Use	1,877	58,179	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	457	14,175
5. Gas Lift	5,650	175,148	11. Vented to Air	17,406	539,591
6. Press. Maint.	0	0	12. TOTALS	28,914	896,346

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Humble Oil & Refining	Crane, Texas	Domestic	2,945
Southern Union Gas Co.	Crane, Texas	Domestic	7,913
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	3,317

1304

[9465]

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	16	500	6. Propane	0	0
3. Gasoline (as made)	1,055	32,697	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-8413	60,000	32,697
			Scrubber Oil	8-4032	519	500
TOTALS					60,519	33,197

List Tenders in Numerical Order

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	500	32,697					33,197
6. Delivered	500	32,697					33,197
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of April, 1950

W. L. Hehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-C Approved this 14 day of April, 1950

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. May 1, 1950 BY C. T. Slack

(Follow Instructions on Reverse Side)

52142-D

[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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[9467]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of April, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline Daily Average Intake Capacity of Plant 35,000
(Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.)

Avg. Intake Pressure 3.2# P.S.I. Avg. Tested GPM 1.01 De-ethanized ~~Raw~~ GPM 1.61

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1 .... 703	Gas From Oil Wells (Casinghead) Detail on Form GP-2	31,347	940,403
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5	Gas From Other Sources	0	0
	TOTALS	31,347	940,403

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,616	48,475	7. Repressuring	0	0
2. Plant Fuel	2,405	72,159	8. Recycling	0	0
3. Lease Use	1,733	52,005	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	332	9,962
5 Gas Lift	5,212	156,360	11. Vented to Air	20,049	601,442
6. Press. Maint	0	0	12. TOTALS	31,347	940,403

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Humble Oil & Refining Co.	Crane, Texas	Domestic	1,817
Southern Union Gas Co.	Crane, Texas	Domestic	5,620
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	2,525

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	17	498	6. Propane	0	0
3. Gasoline (as made)	1,202	36,068	7.	0	0
4. Kerosene	0	0	8.	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8577	60,000	36,068
Scrubber Oil	8-4531	524	498
		60,524	36,566

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	498	36,068					36,566
6. Delivered	498	36,068					36,566
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of May, 1950

/s/ W. L. Meheffey

Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-D Approved this 15th day of May, 1950

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. June 1, 1950 BY /s/ Jim B. Thomas

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9469

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of May, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 2.7# P.S.I. Avg. Tested GPM 1.01 De-ethanized [redacted] 1.67

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1308

[9469]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 705	Gas From Oil Wells (Casinghead) Detail on Form GP-2	30,198	936,135
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	30,198	936,135

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	1,618	50,158	7. Repressuring	0	0
2. Plant Fuel	3,327	103,151	8. Recycling	0	0
3. Lease Use	1,678	52,010	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	223	6,908
5. Gas Lift	5,480	169,884	11. Vented to Air	17,872	554,024
6. Press. Maint.	0	0	12. TOTALS	30,198	936,135

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Humble Oil & Refining Co.	Crane, Texas	Domestic	1,498
Southern Union Gas Co.	Crane, Texas	Domestic	3,604
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	1,806

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	17	523	6. Propane	0	0
3. Gasoline (as made)	1,204	37,320	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8646	60,000	37,320
Scrubber Oil	8-4852	527	523
TOTALS		60,527	37,843

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	523	37,320					37,843
6. Delivered	523	37,320					37,843
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of June, 1950

W. L. Mahaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-E Approved this 15 day of June 1950

RAILROAD COMMISSION OF TEXAS
BY Charles F. Qualia

Void After 7:00 A. M. July 1, 1950

(Follow Instructions on Reverse Side)

52142-D

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9471

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of June, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 3# P.S.I. Avg. Tested GPM 1.47 De-ethanized 1.70

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1310

[9471]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 707	Gas From Oil Wells (Casinghead) Detail on Form GP-2	31,976	959,275
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4	Refinery and Storage Vapors	0	0
5	Gas From Other Sources	0	0
	TOTALS	31,976	959,275

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,777	53,296	7. Repressuring	0	0
2. Plant Fuel	2,136	64,097	8. Recycling	0	0
3 Lease Use	1,275	38,263	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	218	6,526
5. Gas Lift	5,458	163,741	11. Vented to Air	21,112	633,352
6. Press. Maint.	0	0	12. TOTALS	31,976	959,275

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Humble Oil & Refining Co.	Crane, Texas	Domestic	1,366
Southern Union Gas Co.	Crane, Texas	Domestic	3,014
Texas-New Mexico Pipeline	Co.Crane, Texas	Domestic	2,146

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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[9472]

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	17	520	6. Propane	0	0
3. Gasoline (as made)	1,322	39,655	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order
ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8792	60,000	38,734
Scrubber Oil	8-5349	529	520
TOTALS		60,529	39,254

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	520	39,655					40,175
6. Delivered	520	38,734					39,254
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	921					921

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of July, 19 50

Donald E. Cooper
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-F Approved this 15 day of July, 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. August 1, 19 50 BY Jim B. Thomas

(Follow Instructions on Reverse Side)

52142-D

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of July 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 4.2# P.S.I. Avg. Tested GPM 1.46 De-ethanized GPM 1.71

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 709	Gas From Oil Wells (Casinghead) Detail on Form GP-2	33,669	1,043,744
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	33,669	1,043,744

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF	Meter Difference	Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	1,805	55,948	7. [redacted]	399	12,373
2. Plant Fuel	2,119	65,695	8. Recycling	0	0
3. Lease Use	1,137	35,252	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	9,158	283,889
5. Gas Lift	6,188	191,831	11. Vented to Air	12,863	398,756
6. Pres. Maint.	0	0	12. TOTALS	33,669	1,043,744

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Crane, Texas	Industrial & Domestic	277,449
Humble Oil & Refining Co.	Crane, Texas	Domestic	1,942
Southern Union Gas Co.	Crane, Texas	Domestic	2,547
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	1,951

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[9478]

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

Section IV — PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	16	495	6. Propane	0	0
3. Gasoline (as made)	1,343	41,628	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8926	60,000	42,549
Scrubber Oil	8-6000	529	495
TOTALS		60,529	43,044

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	921					921
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	921					921
4. Received	0	0					0
5. Produced	495	41,628					42,123
6. Delivered	495	42,549					43,044
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amounts of each as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of August, 19 50

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-G Approved this 15 day of August, 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. September 1, 1950 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of August, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 4.6# P.S.I. Avg. Tested GPM 1.44 De-ethanized GPM 1.65

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 719	Gas From Oil Wells (Casinghead) Detail on Form GP-2	34,052	1,055,610
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4. Refinery and Storage Vapors		0	0
5. Gas From Other Sources		0	0
	TOTALS	34,052	1,055,610

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF	Meter Difference	Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,800	55,802	7. [illegible]	1,757	54,458
2. Plant Fuel	2,150	66,649	8. Recycling	0	0
3. Lease Use	1,082	30,498	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	20,397	632,296
5. Gas Lift	5,826	183,663	11. Vented to Air	1,040	32,244
6. Press. Maint.	0	0	12. TOTALS	34,052	1,055,610

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Crane, Texas	Industrial & Domestic	625,156
Humble Oil & Refining Co.	Crane, Texas	Domestic	2,805
Southern Union Gas Co.	Crane, Texas	Domestic	2,551
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	1,784

	Bbls. Daily	Bbls. Monthly			
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	14	441	6. Propane	0	0
3. Gasoline (as made)	1,339	41,519	7.	0	0
4. Kerosene	0	0	8.	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9025	60,000	41,519
Scrubber Oil	8-6554	450	441
		60,450	41,960

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					41,960
5. Produced	441	41,519					41,960
6. Delivered	441	41,519					0
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of September, 1950

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-H Approved this 15 day of September 1950

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. October 1, 1950 BY Charles F. Hualia

(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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[9477]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of September 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 6.9# P.S.I. Avg. Tested GPM 1.51 De-ethanized [redacted] GPM 1.48

All gas volumes must be reported at 14.4 pounds plus four ounces and flet temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 720	Gas From Oil Wells (Casinghead) Detail on Form GP-2	35,356	1,060,703
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	35,356	1,060,703

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,676	50,294	7. Meter Difference [redacted]	2,640	79,194
2. Plant Fuel	2,294	68,824	8. Recycling	0	0
3. Lease Use	1,114	33,433	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	20,727	621,820
5. Gas Lift	5,623	168,680	11. Vented to Air	1,282	38,458
6. Press. Maint.	0	0	12. TOTALS	35,356	1,060,703

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Crane, Texas	Industrial & Domestic	614,788
Humble Oil & Refining Co.	Crane, Texas	Domestic	2,384
Southern Union Gas Co.	Crane, Texas	Domestic	2,689
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	1,959

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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[9478]

Section IV	Bbls. Daily	Bbls. Monthly	PLANT PRODUCTION	Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	1,247	37,421	7. 0	0	0
4. Kerosene	0		8. 0	0	0

Section V — Tender Operations Statement

List Tenders in Numerical Order

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	Commodity	ACTUAL DELIVERIES Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9175	60,000	37,421
TOTALS					60,000	37,421

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	37,421					37,421
5. Produced	0	37,421					37,421
6. Delivered	0	0					0
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 13th day of October 19 50

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-I Approved this 14 day of October 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. November 1, 19 50 BY Jim B. Thomas

(Follow Instructions on Reverse Side)

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[9479]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of October, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 6.0# P.S.I. Avg. Tested GPM 1.41 De-ethanized GPM 1.48

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 721	Gas From Oil Wells (Casinghead) Detail on Form GP-2	34,991	1,084,746
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4. Refinery and Storage Vapors		0	0
5. Gas From Other Sources		0	0
	TOTALS	34,911	1,084,746

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,655	51,307	7. Meter Difference	2,768	85,796
2. Plant Fuel	2,091	64,807	8. Recycling	0	0
3. Lease Use	1,471	45,613	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	18,701	579,745
5. Gas Lift	6,316	195,810	11. Vented to Air	1,989	61,668
6. Press. Maint.	0	0	12. TOTALS	34,991	1,084,746

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Crane, Texas	Industrial & Domestic	571,288
Humble Oil and Refining Co.	Crane, Texas	Domestic	2,453
Southern Union Gas Co.	Crane, Texas	Domestic	3,073
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	2,931

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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[9480]

PLANT PRODUCTION

Section IV	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	1,231	38,175	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Tender Operations Statement

Section V — List Tenders in Numerical Order

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	ACTUAL DELIVERIES Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9302	60,000	38,175
			Scrubber Oil	8-7661	540	0
TOTALS					60,540	38,175

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	38,175					38,175
6. Delivered	0	38,175					38,175
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of November 19 50

W. L. Mehaffey
Notary Public in and for Ector County, Texas

Railroad Commission Seal Number 8-35-J Approved this 16 day of November 19 50

RAILROAD COMMISSION OF TEXAS
BY Charles F. Qualia

Void After 7:00 A. M. December 1 19 50

(Follow Instructions on Reverse Side)

52142-D

9480

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9481

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of November, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 35,000

Avg. Intake Pressure 5.5# P.S.I. Avg. Tested GPM 1.51 De-ethanized Percent GPM 1.42

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1320

[9481]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 722	Gas From Oil Wells (Casinghead) Detail on Form GP-2	34,426	1,032,792
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	34,426	1,032,792

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	1,560	46,810	7. Meter Difference	2,478	74,350
2. Plant Fuel	2,304	64,116	8. Recycling	0	0
3. Lease Use	1,696	50,868	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	18,449	553,471
5. Gas Lift	5,633	168,986	11. Vented to Air	2,306	69,191
6. Press. Maint.	0	0	12. TOTALS	34,426	1,032,792

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Crane, Texas	Industrial & Domestic	541,709
Humble Oil and Refining Co.	Crane, Texas	Domestic	2,804
Southern Union Gas Co.	Crane, Texas	Domestic	6,253
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	2,705

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9482]

1321

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	5	140	6. Propane	0	0
3. Gasoline (as made)	1,161	34,829	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES		
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9456	60,000	34,829
			Scrubber Oil	8-7899	540	140
TOTALS					60,540	34,829

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	140	34,829					34,969
6. Delivered	140	34,829					34,969
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of December 19 50

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-K Approved this 14 day of December 19 50

RAILROAD COMMISSION OF TEXAS
BY Charles F. Qualia

Void After 7:00 A. M. January 1, 19 51

(Follow Instructions on Reverse Side)

52142-D

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9483

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of December, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline Daily Average Intake Capacity of Plant 35,000
(Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.)

Avg. Intake Pressure 2.4# P.S.I. Avg. Tested GPM 1.15 De-ethanized GPM 1.41

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1322

9483

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 723	Gas From Oil Wells (Casinghead) Detail on Form GP-2	30,900	957,908
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	30,900	957,908

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,398	43,351	7. Meter Difference	2,493	77,287
2. Plant Fuel	2,497	77,402	8. Recycling	0	0
3. Lease Use	1,745	54,102	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	16,476	510,745
5. Gas Lift	4,819	149,390	11. Vented to Air	1,472	45,631
6. Press. Maint.	0	0	12 TOTALS	30,900	957,908

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Crane, Texas	Industrial & Domestic	496,676
Humble Oil and Refining Co.	Crane, Texas	Domestic	2,773
Southern Union Gas Co.	Crane, Texas	Domestic	8,271
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	3,025

9483

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9484]

1323

Section IV	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	15	470	6. Propane	0	0
3. Gasoline (as made)	1,040	32,255	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

PLANT PRODUCTION

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order
ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9562	60,000	32,255
Scrubber Oil	8-8387	540	470
TOTALS		60,540	32,725

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	470	32,255					32,725
6. Delivered	470	32,255					32,725
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he is authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude as were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on the report, and that no crude oil nor the products in addition to that shown, in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of January, 1951

W. L. Mahaffey
Notary Public in and for Ector County, Texas

Railroad Commission Seal Number 8-35-L Approved this 15 day of January 1951

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. February 1, 1951 BY Charles F. Qualia
(Follow Instructions on Reverse Side)

52142-D

9484

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9485

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of January, 19 51

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 38,000

Avg. Intake Pressure 1.4# P.S.I. Avg. Tested GPM 1.16 De-ethenized [redacted] GPM 1.41

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1324

[9485]

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	726	Gas From Oil Wells (Casinghead) Detail on Form GP-2	34,318	1,063,868
2.		Gas From Sweet Gas Wells " " " "	0	0
3.		Gas From Sour Gas Wells " " " "	0	0
4.		Refinery and Storage Vapors	0	0
5.		Gas From Other Sources	0	0
		TOTALS	34,318	1,063,868

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF	Meter Difference	Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	1,551	48,098	7. [redacted]	1,742	53,976
2. Plant Fuel	1,851	57,377	8. Recycling	0	0
3. Lease Use	1,696	52,584	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	21,664	671,598
5. Gas Lift	5,059	156,841	11. Vented to Air	755	23,394
6. Press. Maint.	0	0	12. TOTALS	34,318	1,063,868

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Crane, Texas	Industrial & Domestic	655,532
Humble Oil and Refining Co.	Crane, Texas	Domestic	3,143
Southern Union Gas Co.	Crane, Texas	Domestic	9,796
Texas-New Mexico Pipe Line Co.	Crane, Texas	Domestic	3,127

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

1325

[9486]

Section IV — DAILY PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	16	500	6. Propane	0	0
3. Gasoline (as made)	1,154	35,787	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9669	60,000	35,787
Scrubber Oil	8-9366	500	500
TOTALS		60,500	36,287

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	500	35,787					36,287
6. Delivered	500	35,787					36,287
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath swore that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further swore that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of February, 19 51

/s/ W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-A Approved this 15th day of February, 19 51

RAILROAD COMMISSION OF TEXAS
BY /s/ Jim B. Thomas

Void After 7:00 A. M. March 1, 19 51

(Follow Instructions on Reverse Side)

52143-D

9486

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9487

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of February 19 51

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 38,000

Avg. Intake Pressure 1,5# P.S.I. Avg. Tested GPM 1.15 De-ethanized 1.41

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1326

[9487]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 728	Gas From Oil Wells (Casinghead) Detail on Form GP-2	34,635	969,782
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	34,635	969,782

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,566	43,848	7. Meter Difference	1,047	29,327
2. Plant Fuel	2,263	63,353	8. [illegible]	4,015	112,431
3. Lease Use	1,640	45,925	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	15,996	447,876
5. Gas Lift	5,329	149,216	11. Vented to Air	2,779	77,806
6. Press. Maint.	0	0	12. TOTALS	34,635	969,782

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Crane, Texas	Industrial & Domestic	436,904
Humble Oil & Refining Co.	Crane, Texas	Domestic	2,423
Southern Union Gas Co.	Crane, Texas	Domestic	5,956
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	2,593

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

1327

[9488]

Section IV — Daily Production

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	19	532	6. Propane	0	0
3. Gasoline (as made)	1,165	32,625	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9859	60,000	32,625
Scrubber Oil	8-9630	500	492
Scrubber Oil	8-9631	43	40
TOTALS		60,543	33,157

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	532	32,625					33,157
6. Delivered	532	32,625					33,157
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further swears that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of March 19 51

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-B Approved this day of 19

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. April 1, 1951 BY

(Follow Instructions on Reverse Side)

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1328

[9489]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

2RCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of March, 1951

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Crane Field McElroy County Crane & Upton

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 38,000

Avg. Intake Pressure 2.9# P.S.I. Avg. Tested GPM 1.22 De-ethanized [redacted] GPM 1.46

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 732	Gas From Oil Wells (Casinghead) Detail on Form GP-2	38,313	1,187,713
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	38,313	1,187,713

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,789	55,471	7. Meter difference [redacted]	2,425	75,187
2. Plant Fuel	2,272	70,427	8. [redacted] Acid Gas & Fuel	3,539	109,713
3. Lease Use	1,579	48,936	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	19,380	600,786
5. Gas Lift	5,982	185,435	11. Vented to Air	1,347	41,758
6. Press. Maint.	0	0	12. TOTALS	38,313	1,187,713

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Crane, Texas	Industrial & Domestic	588,233
Humble Oil & Refining Co.	Crane, Texas	Domestic	2,552
Southern Union Gas Co.	Crane, Texas	Domestic	7,086
Texas-New Mexico Pipeline Co.	Crane, Texas	Domestic	2,915

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

1329

[9490]

PLANT PRODUCTION

Section IV

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	16	485	6. Propane	0	0
3. Gasoline (as made)	1,331	41,273	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9952	60,000	41,273
			Scrubber Oil	8-33	500	485
TOTALS					60,500	41,758

List Tenders in Numerical Order

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	485	41,273					41,758
6. Delivered	485	41,273					41,758
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 13th day of April, 1951

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-35-C Approved this 16 day of April, 1951

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. May 1, 1951 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

52142-D

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[9491] Exhibit No. 170

1330

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of January, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 106,000

Avg. Intake Pressure .67# P.S.I. Avg. Tested GPM .936 De-ethanized Recovered GPM 1.93

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 1,347	Gas From Oil Wells (Casinghead) Detail on Form GP-2	61,983	1,921,463
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	486	15,081
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	62,469	1,936,544

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF	Meter Difference	Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,848	119,291	[redacted]	(3,408)	(105,647)
2. Plant Fuel	5,591	173,306	8. Recycling	0	0
3. Lease Use	579	17,946	9. Carbon Black Plants	15,679	486,064
4. Fuel System	0	0	10. Transmission Line	37,698	1,168,644
5. Gas Lift	532	16,506	11. Vented to Air	717	22,216
6. Press. Maint.	1,233	38,218	12. TOTALS	62,469	1,936,544

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	486,064
Ector County Utilities Co.	Goldsmith, Texas	Domestic	2,644
Ector County Water Co.	Goldsmith, Texas	Industrial	4,489
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial	1,161,511

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9492]

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Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	16	489	6. Propane	0	0
3. Gasoline (as made)	2,863	88,758	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8232	175,000	88,758
Scrubber Oil	8-2618	500	489
TOTALS		175,500	89,247

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	489	88,758					89,247
6. Delivered	489	88,758					89,247
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of February, 19 50.

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-A Approved this day of Feb. 15, 1950, 19

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. March 1, 19 50 BY E. O. Weyel

(Follow Instructions on Reverse Side)

52142-D

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[9493]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of February, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Reprocessing—etc.) Daily Average Intake Capacity of Plant 106,000

Avg. Intake Pressure .62# P.S.I. Avg. Tested GPM .950 De-ethanized GPM 1.77

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 1357	Gas From Oil Wells (Casinghead) Detail on Form GP-2	64,186	1,797,222
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	352	9,870
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	64,538	1,807,092

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF	Meter Difference	Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,632	101,703	7. [redacted]	(3,929)	(110,007)
2. Plant Fuel	5,565	155,818	8. Recycling	0	0
3. Lease Use	662	18,539	9. Carbon Black Plants	12,829	359,225
4. Fuel System	0	0	10. Transmission Line	41,821	1,170,979
5. Gas Lift	563	15,769	11. Vented to Air	729	20,411
6. Press. Maint.	2,666	74,655	12. TOTALS	64,538	1,807,092

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	359,225
Ector County Utilities Co.	Goldsmith, Texas	Domestic	2,205
Ector County Water Co.	Goldsmith, Texas	Industrial	4,758
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial	1,164,016

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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[9494]

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	26	725	6. Propane	0	0
3. Gasoline (as made)	2,703	75,672	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8346	175,000	75,672
Scrubber Oil	8-3115	500	491
Scrubber Oil	8-3230	250	234
		175,750	76,397

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	725	75,672					76,397
6. Delivered	725	75,672					76,397
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such gravities of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission, of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of March, 1950.

/s/ W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-B Approved this 15th day of March, 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. April 1, 19 50 BY /s/ Jim B. Thomas

(Follow Instructions on Reverse Side)

52142-D

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[9495]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of March, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 106,000

Avg. Intake Pressure .53# P.S.I. Avg. Tested GPM .898 De-ethanized 1.63

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 1,369	Gas From Oil Wells (Casinghead) Detail on Form GP-2	66,468	2,060,504
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	181	5,628
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	66,649	2,066,132

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,475	107,712	7. Meter Difference	(3,985)	(123,546)
2. Plant Fuel	5,133	159,124	8. Recycling	0	0
3. Lease Use	1,993	61,781	9. Carbon Black Plants	13,839	429,021
4. Fuel System	0	0	10. Transmission Line	41,078	1,273,441
5. Gas Lift	618	19,144	11. Vented to Air	124	3,868
6. Press. Maint.	4,374	135,587	12. TOTALS	66,649	2,066,132

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	429,021
Ector County Utilities Co.	Goldsmith, Texas	Domestic	2,420
Ector County Water Co.	Goldsmith, Texas	Industrial	6,109
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial	1,264,912

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[This page is identical to Record page 9462 which appears at pages 1900-1901 of this volume and therefor is not reprinted.]

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Section IV	PLANT PRODUCTION Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	31	962	6. Propane	0	0
3. Gasoline (as made)	2,585	80,143	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gaso.	S-8415	175,000	80,143
Scrubber Oil	S-4031	268	268
Scrubber Oil	S-3647	500	500
~~Scrubber Oil~~	~~S-4033~~	~~250~~	~~194~~
		176,018	81,105

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					81,105
5. Produced	962	80,143					81,105
6. Delivered	962	80,143					0
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on each states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of April, 19 50.

W. L. Mahaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-C Approved this 14 day of April, 19 50

RAILROAD COMMISSION OF TEXAS
BY C. T. Slack

Void After 7:00 A. M. May 1, 19 50 (Follow Instructions on Reverse Side)

32142-D

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[9497]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of April, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 106,000

Avg. Intake Pressure .824 P.S.I. Avg. Tested GPM .870 De-ethanized GPM 1.79

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Total MCF
1. 1,376	Gas From Oil Wells (Casinghead) Detail on Form GP-2	76,386	2,291,580
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	245	7,348
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	76,631	2,298,928

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Total MCF		Daily Average MCF	Monthly Total MCF
1. Extraction Loss	4,375	131,266	7. Repressuring	(1,482)	(44,482)
2. Plant Fuel	5,764	172,911	8. Recycling	0	0
3. Lease Use	575	17,239	9. Carbon Black Plants	17,993	539,798
4. Fuel System	0	0	10. Transmission Line	41,216	1,236,486
5. Gas Lift	553	16,587	11. Vented to Air	2,009	60,273
6. Press. Maint.	5,628	168,850	12. TOTALS	76,631	2,298,928

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	539,798
Ector County Utilities Co.	Goldsmith, Texas	Domestic	1,975
Ector County Water Co.	Goldsmith, Texas	Industrial	5,040
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial	1,229,471

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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[9498]

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	33	984	6. Propane	0	0
3. Gasoline (as made)	3,256	97,668	7.	0	0
4. Kerosene	0	0	8.	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8575	175,000	97,668
Scrubber Oil	8-4283	500	484
	8-4529	527	500
TOTALS		176,027	98,652

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	984	97,668					98,652
6. Delivered	984	97,668					98,652
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of May, 1950

/s/ W. L. Mehaffey

Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-D Approved this 15th day of May, 1950

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. June 1, 1950 BY /s/ Jim B. Thomas

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of May, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 106,000

Avg. Intake Pressure 2.43# P.S.I. Avg. Tested GPM .880 De-ethanized [redacted] 1.91

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 1393	Gas From Oil Wells (Casinghead) Detail on Form GP-2	83,742	2,595,996
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	407	12,609
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	84,149	2,608,605

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	5,152	159,708	7 Meter Difference [redacted]	(108)	(3,343)
2. Plant Fuel	5,680	176,096	8. Recycling	0	0
3. Lease Use	440	13,640	9. Carbon Black Plants	20,816	645,280
4. Fuel System	0	0	10. Transmission Line	44,127	1,367,937
5. Gas Lift	798	24,734	11 Vented to Air	962	29,806
6. Press. Maint.	6,282	194,747	12. TOTALS	84,149	2,608,605

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	645,280
Ector County Utilities Co.	Goldsmith, Texas	Domestic	993
Ector County Water Co.	Goldsmith, Texas	Industrial	5,419
El Paso Natural Gas	Goldsmith, Texas	Industrial	1,361,525

9496

[9499]

1338

Goldsmith, Texas | Industrial | 5,419
1,361,525

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	32	978	6. Propane	0	0
3. Gasoline (as made)	3,833	118,830	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order
ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8648	175,000	118,830
Scrubber Oil	8-4749	500	500
Scrubber Oil	8-5004	250	250
Scrubber Oil	8-5068	250	228
		176,000	119,808

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	978	118,830					119,808
6. Delivered	978	118,830					119,808
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of June, 19 50

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-E Approved this 19 day of June, 19 50

Void After 7:00 A. M. July 1, 19 50

RAILROAD COMMISSION OF TEXAS
BY Jim B. Thomas

52142-D (Follow Instructions on Reverse Side)

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9501

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of June, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 106,000

Avg. Intake Pressure 4,58# P.S.I. Avg. Tested GPM 1.16 De-ethanized 2.08

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1340

[9501]

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	1441	Gas From Oil Wells (Casinghead) Detail on Form GP-2	93,597	2,807,916
2.		Gas From Sweet Gas Wells " " " "	0	0
3.	1	Gas From Sour Gas Wells " " " "	135	4,040
4.		Refinery and Storage Vapors	0	0
5.		Gas From Other Sources	0	0
		TOTALS	93,732	2,811,956

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,244	187,319	7. Meter Difference	(3,535)	(106,062)
2. Plant Fuel	6,149	184,459	8. Recycling	0	0
3. Lease Use	452	13,567	9. Carbon Black Plants	22,534	676,019
4. Fuel System	0	0	10. Transmission Line	52,725	1,581,767
5. Gas Lift	775	23,241	11. Vented to Air	96	2,889
6. Press. Maint.	8,292	248,757	12. TOTALS	93,732	2,811,956

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	676,019
Ector County Utilities Co.	Goldsmith, Texas	Domestic	941
Ector County Water Co.	Goldsmith, Texas	Industrial	5,505
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial	1,575,321

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[This page is identical to Record page 9462 which appears at pages 1900-1901 of this volume and therefor is not reprinted.]

[9502]

1341

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	33	989	6. Propane	0	0
3. Gasoline (as made)	4,646	139,374	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement — List Tenders in Numerical Order

Commodity	ACTUAL RECEIPTS Tender No.	Bbls. Received	Commodity	ACTUAL DELIVERIES Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	S-8794	175,000	139,374
			Scrubber Oil	S-5276	500	500
			Scrubber Oil	S-5350	500	489
TOTALS					176,000	140,363

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	989	139,374					140,363
6. Delivered	989	139,374					140,363
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on each states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of such as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of July, 19 50

Donald E. Cooper
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-F Approved this 25 day of July, 19 50

RAILROAD COMMISSION OF TEXAS
By Jim B. Thomas

Void After 7:00 A. M. August 1, 19 50

(Follow Instructions on Reverse Side)

52142-D

9502

9503

[9503]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of July, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 106,000

Avg. Intake Pressure 4.6# P.S.I. Avg. Tested GPM 1.14 De-ethanized ~~Recovered~~ GPM 1.86

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 1,448	Gas From Oil Wells (Casinghead) Detail on Form GP-2	99,557	3,086,257
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	382	11,855
4. Refinery and Storage Vapors		0	0
5. Gas From Other Sources		0	0
	TOTALS	99,939	3,098,112

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	5,964	184,887	7. Meter Difference ~~Repressuring~~	1,543	47,822
2. Plant Fuel	6,220	192,805	8. Recycling	0	0
3. Lease Use	1,045	32,401	9. Carbon Black Plants	34,174	1,059,402
4. Fuel System	0	0	10. Transmission Line	40,863	1,266,768
5. Gas Lift	759	23,521	11. Vented to Air	444	13,757
6. Press. Maint.	8,927	276,749	12. TOTALS	99,939	3,098,112

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	1,059,402
Ector County Utilities Co.	Goldsmith, Texas	Domestic	924
Ector County Water Co.	Goldsmith, Texas	Industrial	5,351
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial & Domestic	1,260,493

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[9504]

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	32	995	6. Propane	0	0
3. Gasoline (as made)	4,438	137,565	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8928	175,000	137,565
Scrubber Oil	8-5704	500	500
" "	8-5854	500	495
TOTALS		176,000	138,560

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	995	137,565					138,560
6. Delivered	995	137,565					138,560
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS }
COUNTY OF Ector }

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on each states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of August, 1950

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-G Approved this 15 day of August, 1950

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. September 1, 1950 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

52142-D

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9505

[9505]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of August, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 120,000

Avg. Intake Pressure 4.8# P.S.I. Avg. Tested GPM 1.16 De-ethanised [redacted] GPM 1.94

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 1479	Gas From Oil Wells (Casinghead) Detail on Form GP-2	107,938	3,346,067
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	325	10,067
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	108,263	3,356,134

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Meter Difference Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,709	207,991	7. [redacted]	(1,616)	(50,089)
2. Plant Fuel	6,932	214,882	8. Recycling	0	0
3. Lease Use	1,196	37,058	9. Carbon Black Plants	34,850	1,080,334
4. Fuel System	0	0	10. Transmission Line	48,897	1,515,814
5. Gas Lift	561	17,395	11. Vented to Air	1,537	47,641
6. Press. Maint.	9,197	285,108	12. TOTALS	108,263	3,356,134

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	1,080,334
Ector County Utilities Co.	Goldsmith, Texas	Domestic	908
Ector County Water Co.	Goldsmith, Texas	Industrial	6,311
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial & Domestic	1,508,595

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9506]

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PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	32	988	6. Propane	0	0
3. Gasoline (as made)	4,992	154,755	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9027	175,000	154,755
			Scrubber Oil	8-6299	500	500
			" "	8-6436	500	488
TOTALS					176,000	155,743

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	988	154,755					155,743
6. Delivered	988	154,755					155,743
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of September 19 50

W. L. Mahaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-H Approved this 15 day of September 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. October 1, 19 50 BY Charles H. Qualia

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

9507

Operator Phillips Petroleum Company Month of September, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline Daily Average Intake Capacity of Plant 120,000
(Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.)

Avg. Intake Pressure 5.0# P.S.I. Avg. Tested GPM 1.14 De-ethanized GPM 1.84

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1346

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Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	1496	Gas From Oil Wells (Casinghead) Detail on Form GP-2	120,345	3,610,350
2.		Gas From Sweet Gas Wells " " " "	0	0
3.	1	Gas From Sour Gas Wells " " " "	59	1,763
4.		Refinery and Storage Vapors	0	0
5.		Gas From Other Sources	0	0
		TOTALS	120,404	3,612,113

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	7,072	212,164	7. Meter Difference	(1,581)	(47,428)
2. Plant Fuel	7,514	225,423	8. Recycling	0	0
3. Lease Use	796	23,883	9. Carbon Black Plants	33,975	1,019,237
4. Fuel System	0	0	10. Transmission Line	58,532	1,755,964
5. Gas Lift	619	18,571	11. Vented to Air	3,376	101,272
6. Press. Maint.	10,101	303,027	12. TOTALS	120,404	3,612,113

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	1,019,237
Ector County Utilities Co.	Goldsmith, Texas	Domestic	1,044
Ector County Water Co.	Goldsmith, Texas	Industrial	5,856
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial & Domestic	1,749,064

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9508]

1347

Section IV	Bbls. Daily	Bbls. Monthly			
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	16	492	6. Propane	0	0
3. Gasoline (as made)	5,262	157,860	7.	0	0
4. Kerosene	0	0	8.	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	List Tenders in Numerical Order — Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9177	175,000	157,860
			Scrubber Oil	8-6858	500	492
TOTALS					175,500	158,352

Section VI — Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	492	157,860					158,352
6. Delivered	492	157,860					158,352
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 13th day of October, 19 50

W. L. Mahaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-I Approved this 14 day of October, 19 50

Void After 7:00 A. M. November 1, 19 50 RAILROAD COMMISSION OF TEXAS
BY Jim B. Thomas
(Follow Instructions on Reverse Side)

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[9509]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of October, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 120,000

Avg. Intake Pressure 4.9# P.S.I. Avg. Tested GPM 1.16 De-ethanized GPM 1.93

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 1,508	Gas From Oil Wells (Casinghead) Detail on Form GP-2	119,601	3,707,643
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	265	8,213
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	119,866	3,715,856

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	7,403	229,497	7. Meter Difference	(3,335)	(103,374)
2. Plant Fuel	7,417	229,924	8. Recycling	0	0
3. Lease Use	441	13,657	9. Carbon Black Plants	34,518	1,070,063
4. Fuel System	0	0	10. Transmission Line	61,582	1,909,054
5. Gas Lift	450	13,946	11. Vented to Air	1,967	60,961
6. Press. Maint.	9,423	292,128	12. TOTALS	119,866	3,715,856

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	1,070,063
Ector County Utilities Co.	Goldsmith, Texas	Domestic	1,145
Ector County Water Co.	Goldsmith, Texas	Industrial	6,918
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial & Domestic	1,900,991

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[This page is identical to Record page 9462 which appears at pages 1900-1901 of this volume and therefor is not reprinted.]

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1349

Section IV	Bbls. Daily	Bbls. Monthly	PLANT PRODUCTION	Bbls. Daily	Bbls. Monthly
1 Condensate	0	0	5. Butane	0	0
2 Crude Oil	0	0	6. Propane	0	0
3 Gasoline (as made)	5,507	170,757	7. 0	0	0
4 Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9298	175,000	170,757
TOTALS					175,000	170,757

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1 Opening Tender Balance	0	0					0
2 Frozen Stock	0	0					0
3 Total Opening Stock	0	0					0
4 Received	0	0					0
5 Produced	0	170,757					170,757
6 Delivered	0	170,757					170,757
7 Loss	0	0					0
8 Total Closing Stock	0	0					0
9 Frozen Stock	0	0					0
10 Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of November, 19 50

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-J Approved this 16 day of November, 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. December 1, 19 50 BY Charles F. Qualia
(Follow Instructions on Reverse Side)

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[9511]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO.

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of November, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 120,000

Avg. Intake Pressure 4.7# P.S.I. Avg. Tested GPM 1.16 De-ethanized GPM 1.92

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 1,515	Gas From Oil Wells (Casinghead) Detail on Form GP-2	105,271	3,158,130
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	201	6,042
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	105,472	3,164,172

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Meter Difference Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,481	194,428	7. [illegible]	(5,779)	(173,380)
2. Plant Fuel	7,701	231,024	8. Recycling	0	0
3. Lease Use	507	15,223	9. Carbon Black Plants	34,522	1,035,661
4. Fuel System	0	0	10. Transmission Line	50,886	1,526,579
5. Gas Lift	642	19,267	11. Vented to Air	511	15,326
6. Press. Maint.	10,001	300,044	12. TOTALS	105,472	3,164,172

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	1,035,661
Ector County Utilities Co.	Goldsmith, Texas	Domestic	1,800
Ector County Water Co.	Goldsmith, Texas	Industrial	7,834
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial & Domestic	1,515,945

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

PLANT PRODUCTION

Section IV	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	3	100	6. Propane	0	0
3. Gasoline (as made)	4,822	144,664	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9458	200,000	144,664
Scrubber Oil	8-7900	300	100
		200,300	144,764

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	100	144,664					144,764
6. Delivered	100	144,664					144,764
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

(Signed) Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of December, 1950

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-K Approved this 14 day of December, 1950

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. January 1, 1951 BY Jim B. Thomas

(Follow Instructions on Reverse Side)

52142-D

9513

[9513]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of December, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 120,000

Avg. Intake Pressure 4.7# P.S.I. Avg. Tested GPM .982 De-ethanized GPM 1.90

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 1,526	Gas From Oil Wells (Casinghead) Detail on Form GP-2	98,736	3,060,820
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	182	5,660
4. Refinery and Storage Vapors		0	0
5. Gas From Other Sources		0	0
	TOTALS	98,918	3,066,480

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,031	186,956	7. Meter Difference	(1,899)	(58,862)
2. Plant Fuel	7,170	222,272	8. Recycling	0	0
3. Lease Use	520	16,111	9. Carbon Black Plants	36,026	1,116,805
4. Fuel System	0	0	10. Transmission Line	39,572	1,226,732
5. Gas Lift	653	20,263	11. Vented to Air	440	13,652
6. Press. Maint.	10,405	322,551	12. TOTALS	98,918	3,066,480

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	1,116,805
Ector County Utilities	Goldsmith, Texas	Domestic	2,254
Ector County Water Co.	Goldsmith, Texas	Industrial	8,030
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial & Domestic	1,216,448

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[9514]

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Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	4,487	139,104	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement — List Tenders in Numerical Order

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9564	200,000	139,104
TOTALS					200,000	139,104

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	139,104					139,104
6. Delivered	0	139,104					139,104
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on each states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of January 19 51

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-L Approved this 15 day of January 19 51

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. February 1 19 51 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

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1354

[9515]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of January, 19 51

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 120,000

Avg. Intake Pressure 5.1 P.S.I. Avg. Tested GPM .961 De-ethanized GPM 1.88

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1 1,537	Gas From Oil Wells (Casinghead) Detail on Form GP-2	107,212	3,323,566
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	353	10,938
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	107,565	3,334,504

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Tot'ls MCF
1 Extraction Loss	6,443	199,725	7 Meter Difference	(3,961)	(122,785)
2. Plant Fuel	7,313	226,706	8. Recycling	0	0
3. Lease Use	790	24,505	9. Carbon Black Plants	34,368	1,065,411
4. Fuel System	0	0	10. Transmission Line	50,198	1,556,132
5 Gas Lift	555	17,207	11 Vented to Air	1,330	41,218
6. Press. Maint.	10,529	326,385	12. TOTALS	107,565	3,334,504

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	1,065,411
Ector County Utilities	Goldsmith, Texas	Domestic	2,636
Ector County Water Co.	Goldsmith, Texas	Industrial	6,293
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial & Domestic	1,547,203

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	30	943	6. Propane	0	0
3. Gasoline (as made)	4,794	148,605	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement — List Tenders in Numerical Order

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9671	200,000	148,605
Scrubber Oil	8,8950	500	500
" "	8-9075	250	214
" "	8-9365	250	229
		201,000	149,548

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	943	148,605					149,548
6. Delivered	943	148,605					149,548
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Company By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of February, 1951

/s/ W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-A Approved this 15th day of February, 1951

RAILROAD COMMISSION OF TEXAS
/s/ Jim B. Thomas

Void After 7:00 A. M. March 1, 1951 BY
(Follow Instructions on Reverse Side)

52142-D

[9516]

[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9517

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of February, 19 51

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 130,000

Avg. Intake Pressure 5# P.S.I. Avg. Tested GPM .959 De-ethanized 1.87

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1356

[9517]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 1,549	Gas From Oil Wells (Casinghead) Detail on Form GP-2	113,847	3,187,705
2.	Gas From Sweet Gas Wells " " " "	0	0
3. 1	Gas From Sour Gas Wells " " " "	426	11,940
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	114,273	3,199,645

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,850	191,797	7. Meter Difference	(5,446)	(152,471)
2. Plant Fuel	6,985	195,583	8. Recycling	0	0
3. Lease Use	1,156	32,356	9. Carbon Black Plants	35,399	991,165
4. Fuel System	0	0	10. Transmission Line	55,070	1,541,947
5. Gas Lift	428	11,979	11. Vented to Air	4,020	112,580
6. Press. Maint.	9,811	274,711	12. TOTALS	114,273	3,199,645

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	991,165
Ector County Utilities	Goldsmith, Texas	Domestic	2,876
Ector County Water Co.	Goldsmith, Texas	Industrial	5,757
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial & Domestic	1,533,314

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9518]

1357

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	35	981	6. Propane	0	0
3. Gasoline (as made)	5,097	142,706	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9865	200,000	142,706
Scrubber Oil	8-9546	500	500
" "	8-9927	500	481
TOTALS		201,000	143,687

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	981	142,706					143,687
6. Delivered	981	142,706					143,687
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of March, 19 51

W. L. Mahaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-B Approved this 16 day of March, 19 51

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. April 1, 19 51 BY Charles F Qualia

(Follow Instructions on Reverse Side)

52143-D

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9519

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of March, 1951

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Goldsmith Field Goldsmith County Ector

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 130,000

Avg. Intake Pressure 5.3# P.S.I. Avg. Tested GPM .804 De-ethanized Recovered GPM 1.84

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1358

[9519]

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	1600	Gas From Oil Wells (Casinghead) Detail on Form GP-2	125,159	3,879,941
2.		Gas From Sweet Gas Wells " " " "	0	0
3.	1	Gas From Sour Gas Wells " " " "	313	9,698
4.		Refinery and Storage Vapors	0	0
5.		Gas From Other Sources	0	0
		TOTALS	125,472	3,889,639

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	7,369	228,441	7. ~~Repressuring~~ Meter difference	(2,346)	(72,724)
2. Plant Fuel	7,313	226,718	8. Recycling	0	0
3. Lease Use	702	21,788	9. Carbon Black Plants	33,139	1,027,303
4. Fuel System	0	0	10. Transmission Line	59,283	1,837,765
5. Gas Lift	765	23,704	11. Vented to Air	6,787	210,393
6. Press. Maint.	12,460	386,251	12. TOTALS	125,472	3,889,639

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Sid Richardson Carbon Co.	Odessa, Texas	Industrial	1,027,303
Ector County Utilities	Goldsmith, Texas	Domestic	2,301
Ector County Water Co.	Goldsmith, Texas	Industrial	6,577
El Paso Natural Gas Co.	Goldsmith, Texas	Industrial & Domestic	1,828,887

PLANT PRODUCTION

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[9520]

1359

Section IV	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	16	484	6. Propane	0	0
3. Gasoline (as made)	5,483	169,971	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9955	200,000	169,971
			Scrubber Oil	8-515	500	484
TOTALS					200,500	170,455

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	484	169,971					170,455
6. Delivered	484	169,971					170,455
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 13th day of April, 19 51

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-53-C Approved this 16 day of April, 19 51

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. May 1, 19 51 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

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[9521] Exhibit No. 171

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of January, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullarton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 2,35# P.S.I. Avg. Tested GPM 1.52 De-ethanized Recovered GPM 2.91

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 676	Gas From Oil Wells (Casinghead) Detail on Form GP-2	45,316	1,404,786
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	45,316	1,404,786

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF	Meter Difference	Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	4,222	130,926	[redacted]	(1,620)	(50,285)
2. Plant Fuel	4,218	130,762	8. Recycling	0	0
3. Lease Use	2,535	78,596	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	35,813	1,110,208
5. Gas Lift	148	4,579	11. Vented to Air	0	0
6. Press. Maint.	0	0	12. TOTALS	45,316	1,404,786

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,713
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,106,495

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[This page is identical to Record page 9462 which appears at pages 1900-1901 of this volume and therefor is not reprinted.]

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[95522]

Section IV	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	3,142	97,415	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

PLANT PRODUCTION

Section V Tender Operations Statement

List Tenders in Numerical Order

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	ACTUAL DELIVERIES Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-8234	150,000	97,415
TOTALS					150,000	97,415

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	97,415					97,415
6. Delivered	0	97,415					97,415
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of February, 19 50

W. L. Mahaffay
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-A Approved this ____ day of Feb. 15, 1950, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. March 1, 19 50 BY E. G. Mayal

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of February, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 2.42# P.S.I. Avg. Tested GPM 1.16 De-ethanized [redacted] GPM 3.10

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	512	Gas From Oil Wells (Casinghead) Detail on Form GP-2	32,869	920,339
2.		Gas From Sweet Gas Wells " " " "	0	0
3.		Gas From Sour Gas Wells " " " "	0	0
4.		Refinery and Storage Vapors	0	0
5.		Gas From Other Sources	0	0
		TOTALS	32,869	920,339

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF	Meter Difference	Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,265	91,418	7. [redacted]	601	16,825
2. Plant Fuel	4,079	114,219	8. Recycling	0	0
3. Lease Use	1,657	46,382	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	23,133	647,729
5. Gas Lift	134	3,766	11. Vented to Air	0	0
6. Press. Maint.	0	0	12. TOTALS	32,869	920,339

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,121
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	644,608

1362

[9523]

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9524]

1363

PLANT PRODUCTION

Section IV	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	2,429	68,019	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Tender Operations Statement

Section V

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-8348	150,000	68,019
TOTALS					150,000	68,019

List Tenders in Numerical Order

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	68,019					68,019
6. Delivered	0	68,019					68.019
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of such as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of March, 19 50

/s/ W. L. Mehaffey

Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-B Approved this 15th day of March, 19 50

Void After 7:00 A. M. April 1, 19 50 BY /s/ Jim B. Thomas

RAILROAD COMMISSION OF TEXAS

(Follow Instructions on Reverse Side)

52142-D

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1364

[9525]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of March, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 2# P.S.I. Avg. Tested GPM 1.08 De-ethanized 2.45

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	494	Gas From Oil Wells (Casinghead) Detail on Form GP-2	42,667	1,322,684
2.		Gas From Sweet Gas Wells " " " "	0	0
3.		Gas From Sour Gas Wells " " " "	0	0
4.		Refinery and Storage Vapors	0	0
5.		Gas From Other Sources	0	0
		TOTALS	42,667	1,322,684

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,345	103,687	7. Meter Difference	666	20,644
2. Plant Fuel	4,120	127,713	8. Recycling	0	0
3. Lease Use	1,754	54,375	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	32,604	1,010,715
5. Gas Lift	131	4,083	11. Vented to Air	47	1,447
6. Press. Maint.	0	0	12. TOTALS	42,667	1,322,684

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,648
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,007,067

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9526]

1365

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	2,489	77,148	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement — List Tenders in Numerical Order

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	ACTUAL DELIVERIES Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-8417	150,000	77,148
TOTALS					150,000	77,148

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	77,148					77,148
6. Delivered	0	77,148					77,148
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of April, 19 50

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-0 Approved this 14 day of April, 19 50

RAILROAD COMMISSION OF TEXAS

Valid After 7:00 A. M. May 1, 19 50 BY C. T. Slack

(Follow Instructions on Reverse Side)

92142-D

9526

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9527

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of April 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 1,234 P.S.I. Avg. Tested GPM 1.09 Recovered GPM 2.85

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Total MCF
492	1. Gas From Oil Wells (Casinghead) Detail on Form GP-2	47,038	1,411,153
	2. Gas From Sweet Gas Wells " " " "	0	0
	3. Gas From Sour Gas Wells " " " "	0	0
	4. Refinery and Storage Vapors	0	0
	5. Gas From Other Sources	0	0
	TOTALS	47,038	1,411,153

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Total MCF		Daily Average MCF	Monthly Total MCF
1. Extraction Loss	4,294	128,813	7. Meter Difference	1,119	33,567
2. Plant Fuel	4,149	124,476	8. Recycling	0	0
3. Lease Use	1,470	44,088	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	35,006	1,077,194
5. Gas Lift	87	2,615	11. Vented to Air	13	400
6. Press. Maint.	0	0	12. TOTALS	47,038	1,411,153

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,066
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,074,128

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[9527]

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9528]

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Section IV	Bbls. Daily	Bbls. Monthly	PLANT PRODUCTION	Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	3,195	95,843	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement — List Tenders in Numerical Order

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	ACTUAL DELIVERIES Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-8576	150,000	95,843
TOTALS					150,000	95,843

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	95,843					95,843
6. Delivered	0	95,843					95,843
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and, that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of such as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of May, 19 50

/s/ W. L. Mehaffey
Notary Public in and for Ector County, Texas

Railroad Commission Seal Number 8-250-D Approved this 15th day of May, 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. June 1, 19 50 BY /s/ Jim B. Thomas
(Follow Instructions on Reverse Side)

92142-D

9528

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form. GP-1
Rev. 7-1-48

RRCT DIST. NO. 8

9529

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of May 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline Daily Average Intake Capacity of Plant 90,000
(Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.)

Avg. Intake Pressure 1,28# P.S.I. Avg. Tested GPM 1.38 De-ethanised [redacted] 2.97

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Total MCF
1. 455	Gas From Oil Wells (Casinghead) Detail on Form GP-2	47,045	1,458,381
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	47,045	1,458,381

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Total MCF		Daily Average MCF	Monthly Total MCF
1. Extraction Loss	4,475	138,730	7. Meter Difference	1,198	37,130
2. Plant Fuel	4,101	127,122	8. Recycling	0	0
3. Lease Use	1,167	36,167	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	34,872	1,081,041
5. Gas Lift	0	0	11. Vented to Air	1,232	38,191
6. Press. Maint.	0	0	12. TOTALS	47,045	1,458,381

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,161
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,077,880

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[9529]

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9530]

1369

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	3,330	103,222	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement — List Tenders in Numerical Order

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	ACTUAL DELIVERIES Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	S-8650	150,000	103,222
TOTALS					150,000	103,222

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	103,222					103,222
6. Delivered	0	103,222					103,222
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of such as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of June, 1950

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-E Approved this 15 day of June, 1950

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. July 1, 1950 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9531

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of June, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 1,33# P.S.I. Avg. Tested GPM 1.41 De-ethanized 2.81

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1370

[9531]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 457	Gas From Oil Wells (Casinghead) Detail on Form GP-2	52,889	1,586,671
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	52,889	1,586,671

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	4,761	142,815	7. Meter Difference	1,982	59,452
2. Plant Fuel	4,306	129,194	8. Recycling	0	0
3. Lease Use	1,150	34,487	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	40,011	1,200,344
5. Gas Lift	0	0	11. Vented to Air	679	20,379
6. Press. Maint.	0	0	12. TOTALS	52,889	1,586,671

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	2,922
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,197,422

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

1371

[9532]

Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	3,542	106,261	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order
ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-8795	150,000	106,261
		150,000	106,261

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	106,261					106,261
6. Delivered	0	106,261					106,261
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ated Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of July, 19 50

Donald E. Cooper
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-F Approved this 15 day of July, 19 50

RAILROAD COMMISSION OF TEXAS

Valid After 7:00 A. M. August 1, 19 50 BY Jim B. Thomas

(Follow Instructions on Reverse Side)

52142-D

9532

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9533

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of July, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 1,32# P.S.I. Avg. Tested GPM 1.41 De-ethanized [redacted] GPM 2.56

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1372

[95331]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 453	Gas From Oil Wells (Casinghead) Detail on Form GP-2	56,365	1,747,322
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	56,365	1,747,322

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Meter Difference Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	4,617	143,131	7. [redacted]	668	20,703
2. Plant Fuel	4,383	135,867	8. Recycling	0	0
3. Lease Use	1,220	37,816	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	43,583	1,351,081
5. Gas Lift	0	0	11. Vented to Air	1,894	58,724
6. Press. Maint.	0	0	12. TOTALS	56,365	1,747,322

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	2,551
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,348,530

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	3,435	106,496	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	Commodity	List Tenders in Numerical Order ACTUAL DELIVERIES Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-8930	150,000	106,496
TOTALS					150,000	106,496

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	106,496					106,496
6. Delivered	0	106,496					106,496
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

Signed Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of August, 1950

W. L. Mehaffey
Notary Public in and for Ector County, Texas

Railroad Commission Seal Number 8-250-G Approved this 15 day of August, 1950

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. September 1, 1950 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

92142-D

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of August, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

g. Intake Pressure 1,218 P.S.I. Avg. Tested GPM 1.58 De-ethanized [redacted] GPM 2.52

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 454	Gas From Oil Wells (Casinghead) Detail on Form GP-2	59,742	1,852,020
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	59,742	1,852,020

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF	Meter Difference	Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	4,819	149,399	7. [redacted]	281	8,697
2. Plant Fuel	4,582	142,051	8. Recycling	0	0
3. Lease Use	1,230	38,124	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	41,092	1,273,862
5. Gas Lift	0	0	11. Vented to Air	7,738	239,887
6. Press. Maint.	0	0	12. TOTALS	59,742	1,852,020

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,036
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,270,826

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Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	3,585	111,160	7. D	0	0
4. Kerosene	0	0	8. D	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9028	150,000	111,160
TOTALS		150,000	111,160

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	111,160					111,160
6. Delivered	0	111,160					111,160
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of September, 19 50

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-H Approved this 15 day of September, 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. October 1, 19 50 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO.

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Co. Month of September, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 1,21# P.S.I. Avg. Tested GPM 1.58 De-ethanized [redacted] GPM 2.50

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 456	Gas From Oil Wells (Casinghead) Detail on Form GP-	60,425	1,812,754
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	2,879	86,355
	TOTALS	63,304	1,899,109

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	4,841	145,235	7. Meter Difference [redacted]	(511)	(15,338)
2. Plant Fuel	4,715	141,451	8. Recycling	0	0
3. Lease Use	829	24,879	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	49,025	1,470,740
5. Gas Lift	0	0	11. Vented to Air	4,405	132,142
6. Press. Maint.	0	0	12. TOTALS	63,304	1,899,109

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	2,847
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,467,893

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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Section IV	Bbls. Daily	Bbls. Monthly	PLANT PRODUCTION		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane		0	0
2. Crude Oil	0	0	6. Propane		0	0
3. Gasoline (as made)	3,602	108,062	7.	0	0	0
4. Kerosene	0	0	8.	0	0	0

Section V — Tender Operations Statement

List Tenders in Numerical Order

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	ACTUAL DELIVERIES Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9179	150,000	108,062
TOTALS					150,000	108,062

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	108,062					108,062
6. Delivered	0	108,062					108,062
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS }
COUNTY OF Ector }

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 13th day of October, 1950

M. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-I Approved this 14 day of October, 1950

Void After 7:00 A. M. November 1, 1950 BY Jim B. Thomas
RAILROAD COMMISSION OF TEXAS
(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of October, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline Daily Average Intake Capacity of Plant 90,000
(Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.)

Avg. Intake Pressure 1.1# P.S.I. Avg. Tested GPM 1.62 De-ethanized [redacted] GPM 2.33

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	455	Gas From Oil Wells (Casinghead) Detail on Form GP-2	65,450	2,028,964
2.		Gas From Sweet Gas Wells " " " "	0	0
3.		Gas From Sour Gas Wells " " " "	0	0
4.		Refinery and Storage Vapors	0	0
5.		Gas From Other Sources	0	0
		TOTALS	65,450	2,028,964

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Meter Difference Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	4,885	151,445	7. [redacted]	284	8,795
2. Plant Fuel	4,720	146,309	8. Recycling	0	0
3. Lease Use	799	24,784	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	48,125	1,491,874
5. Gas Lift	0	0	11. Vented to Air	6,637	205,757
6. Press. Maint.	0	0	12. TOTALS	65,450	2,028,964

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,026
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,488,848

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	3,635	112,682	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

List Tenders in Numerical Order

ACTUAL RECEIPTS Commodity	Tender No.	Bbls. Received	ACTUAL DELIVERIES Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9301	150,000	112,682
TOTALS					150,000	112,682

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	112,682					112,682
6. Delivered	0	112,682					112,682
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on each states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of November, 19 50

W. L. Mehaffey

Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-J Approved this 16 day of November, 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. December 1, 19 50 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

9541

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of November, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 1,194 P.S.I. Avg. Tested GPM 1.15 De-ethanized [redacted] GPM 2.26

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

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[9541]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 454	Gas From Oil Wells (Casinghead) Detail on Form GP-2	62,416	1,872,468
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	62,416	1,872,468

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	4,506	135,173	7. Meter Difference [redacted]	(1,542)	(46,257)
2. Plant Fuel	4,900	147,014	8. Recycling	0	0
3. Lease Use	1,024	30,708	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	48,910	1,467,296
5. Gas Lift	0	0	11. Vented to Air	4,618	138,534
6. Press. Maint.	0	0	12. TOTALS	62,416	1,872,468

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,165
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,464,131

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Section IV	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	3,353	100,575	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V Tender Operations Statement — List Tenders in Numerical Order

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9460	150,000	100,575
TOTALS					150,000	100,575

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	100,575					100,575
6. Delivered	0	100,575					100,575
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ved Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of December 19 50

W. L. Mahaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-K Approved this 14 day of December 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. January 1, 19 51 BY Charles F. Qualia
(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of December, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline Daily Average Intake Capacity of Plant 90,000
(Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.)

Avg. Intake Pressure 1,088 P.S.I. Avg. Tested GPM 1.25 De-ethanized [illegible] GPM 2.44

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	454	Gas From Oil Wells (Casinghead) Detail on Form GP-2	49,366	1,530,358
2.		Gas From Sweet Gas Wells " " " "	0	0
3.		Gas From Sour Gas Wells " " " "	0	0
4.		Refinery and Storage Vapors	0	0
5.		Gas From Other Sources	0	0
6.		TOTALS	49,366	1,530,358

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,857	119,569	7. Meter Difference	(1,170)	(36,269)
2. Plant Fuel	4,380	135,791	8. Recycling	0	0
3. Lease Use	1,006	31,194	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	39,546	1,225,923
5. Gas Lift	0	0	11. Vented to Air	1,747	54,150
6. Press. Maint.	0	0	12. TOTALS	49,366	1,530,358

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,753
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,222,170

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

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Section IV — PLANT PRODUCTION

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	2,870	88,965	7.	0	0
4. Kerosene	0	0	8.	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9566	150,000	88,965
		150,000	88,965

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	88,965					88,965
6. Delivered	0	88,965					88,965
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of January 19 51

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-L Approved this 15 day of January 19 51

Void After 7:00 A. M. February 1, 1951 BY Charles F. Qualia
(Follow Instructions on Reverse Side)

RAILROAD COMMISSION OF TEXAS

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of January 19 51

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 1.14# P.S.I. Avg. Tested GPM 1.28 De-ethanized [redacted] GPM 2.50

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Total MCF
1. 454	Gas From Oil Wells (Casinghead) Detail on Form GP-2	47,635	1,476,689
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	47,635	1,476,689

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Total MCF	Meter Difference	Daily Average MCF	Monthly Total MCF
1. Extraction Loss	3,809	118,091	7. [redacted]	(1,509)	(46,805)
2. Plant Fuel	4,352	134,923	8. Recycling	0	0
3. Lease Use	920	28,528	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	39,736	1,231,807
5. Gas Lift	0	0	11. Vented to Air	327	10,145
6. Press. Maint.	0	0	12. TOTALS	47,635	1,476,689

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,783
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,228,024

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	2,834	87,865	7.	0	0
4. Kerosene	0	0	8.	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9068	150,000	87,865
		150,000	87,865

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	87,865					87,865
6. Delivered	0	87,865					87,865
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of February, 19 51.

/s/ W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-A Approved this 15th day of February, 19 51.

RAILROAD COMMISSION OF TEXAS
BY /s/ Jim B. Thomas

Void After 7:00 A. M. March 1, 19 51 (Follow Instructions on Reverse Side)

52142-D

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9546]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of February, 19 51

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000

Avg. Intake Pressure 1# P.S.I. Avg. Tested GPM .977 De-ethanized 2.26

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 454	Gas From Oil Wells (Casinghead) Detail on Form GP-2	47,379	1,326,625
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	47,379	1,326,625

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,578	100,187	7. Meter Difference	(1,382)	(38,693)
2. Plant Fuel	4,490	125,721	8. Recycling	0	0
3. Lease Use	883	24,731	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	34,982	979,486
5. Gas Lift	0	0	11. Vented to Air	4,828	135,193
6. Press. Maint.	0	0	12. TOTALS	47,379	1,326,625

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,469
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	976,017

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[95477]

Section IV						
1. Condensate	0	0	6. Propane		0	0
2. Crude Oil	0	0	7. 0	0	0	0
3. Gasoline (as made)	2,662	74,544	8. 0	0		
4. Kerosene	0	0				

Tender Operations Statement

Section V

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	8-9864	150,000	71,498
					150,000	71,498

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	74,544					74,544
5. Produced	0	74,544					74,544
6. Delivered	0	0					0
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					
10. Closing Tenderable Balance	0	0					

TOTALS

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of March, 19 51

W. L. Mcnaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-B Approved this 16th day of March, 19 51

RAILROAD COMMISSION OF TEXAS
BY Charles F. Qualia

Void After 7:00 A. M. April 1, 19 51 (Follow Instructions on Reverse Side)

52142-D

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[This page is identical to Record page 9462 which appears at pages 1300-1301 of this volume and therefor is not reprinted.]

[9548]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 8

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of March, 19 51

Main Office Bartlesville, Oklahoma Local or Field Office Box 6666, Odessa, Texas

Plant Name Fullerton Field Fullerton County Andrews

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 90,000 De-ethanized

Avg. Intake Pressure 1.15# P.S.I. Avg. Tested GPM .982 [redacted] GPM 2.50

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 454	Gas From Oil Wells (Casinghead) Detail on Form GP-2	50,132	1,554,093
2.	Gas From Sweet Gas Wells " " " "	0	0
3.	Gas From Sour Gas Wells " " " "	0	0
4.	Refinery and Storage Vapors	0	0
5.	Gas From Other Sources	0	0
	TOTALS	50,132	1,554,093

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	4,015	124,476	7. Meter Difference [redacted]	(111)	(3,450)
2. Plant Fuel	4,486	139,081	8. Recycling	0	0
3. Lease Use	777	24,081	9. Carbon Black Plants	0	0
4. Fuel System	0	0	10. Transmission Line	39,955	1,238,603
5. Gas Lift	0	0	11. Vented to Air	1,010	31,302
6. Press. Maint.	0	0	12. TOTALS	50,132	1,554,093

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Shell Oil Company	Hobbs, New Mexico	Industrial	3,932
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	1,234,671

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Section IV	Bbls. Daily	PLANT PRODUCTION Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate	0	0	5. Butane	0	0
2. Crude Oil	0	0	6. Propane	0	0
3. Gasoline (as made)	2,988	92,616	7. 0	0	0
4. Kerosene	0	0	8. 0	0	0

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	8-9956	150,000	92,616
		150,000	92,616

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance	0	0					0
2. Frozen Stock	0	0					0
3. Total Opening Stock	0	0					0
4. Received	0	0					0
5. Produced	0	92,616					92,616
6. Delivered	0	92,616					92,616
7. Loss	0	0					0
8. Total Closing Stock	0	0					0
9. Frozen Stock	0	0					0
10. Closing Tenderable Balance	0	0					0

ned Phillips Petroleum Co. By D. M. Hankins Title Gas Superintendent

THE STATE OF TEXAS
COUNTY OF Ector

BEFORE ME, The undersigned authority, on this day personally appeared D. M. Hankins, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 13th day of April, 19 51

W. L. Mehaffey
Notary Public in and for Ector County, Texas.

Railroad Commission Seal Number 8-250-C Approved this 16th day of April, 19 51

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. May 1, 1951 BY Charles F. Qualia

(Follow Instructions on Reverse Side)

52142-D

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Exhibit No. 172

[9551]

OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of January 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,387,459
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	129,814
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,517,273

Disposition of Residue

	Volume M.C.F.
Plant Fuel	204,269
Returned For Lease Fuel	5,548
Sold or Other Disposition (Detail Below)	3,274,495
Meter Difference	(69,918)
Returned to Earth	0
Vented	0
Shrinkage	101,879
TOTAL	3,517,273

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,384,390
Witco Carbon Co.	Eunice, New Mexico	Industrial	891,105

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TOTAL

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	75,803	75,803	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	75,803	75,803	0

REMARKS: 75,803 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

Subscribed and Sworn to before me on this the 15th day of February 19 50

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

/s/ W. L. Mehaffey Notary Public

In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

INSTRUCTIONS

The addresses, as required on this report, shall be clear and definite as to Street Number, City and State.

This report, including Sheet 2, shall be made by each Operator of a Gasoline Plant, Cycling Plant, or any other plant, at which gasoline, butane, propane, condensate, kerosene, oil or other liquid products are extracted from natural gas.

This report, including Sheet 2, shall be filed in duplicate on or before the 15th day of each calendar month and shall be complete as to data covering the calendar month next preceding the date of filing. One executed copy shall be filed with the Oil Conservation Commission of Santa Fe, and one executed copy with the Lea County Proration Office at Hobbs.

Note: "Deliveries" show under "Remarks" the name of the transporter and the quantity delivered to each, except deliveries to trucks may be reported in total only.

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In the preparation of Sheet 2 of this report, group and report by unit the volumes of "Gas From Oil Wells" and the total thereof; group and report by well the volume of "Gas From Gas Wells" and the total thereof; report by each source the volume of "Gas From Other Sources" and the total thereof; and report the total intake Volume from all Sources.

Make a separate report for each plant.

Please use typewriter if possible.

If any space does not apply fill in the word "NONE."

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OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO
GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Form C-114
Sheet 1

Report of Phillips Petroleum Company Month of February 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,205,015
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	46,337
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,251,352

Disposition of Residue

	Volume M.C.F.
Plant Fuel	177,703
Returned For Lease Fuel	5,188
Sold or Other Disposition (Detail Below)	3,026,840
Meter Difference	(52,260)
Returned to Earth	0
Vented	0
Shrinkage	93,881
TOTAL	3,251,352

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,187,937
Witco Carbon Co.	Eunice, New Mexico	Industrial	838,903

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TOTAL

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	69,852	67,526	2,326
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	69,852	67,526	2,326

REMARKS: 67,526 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

Subscribed and Sworn to before me on this the 15th day of March 1950

/s/ W. L. Mehaffey Notary Public

In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

[9554]

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[This page is identical to Record page 9552 which appears at pages 1992-1993 of this volume and therefor is not reprinted.]

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[9555]

OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of March 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,507,353
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	135,333
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,642,686

Disposition of Residue

	Volume M.C.F.
Plant Fuel	204,866
Returned For Lease Fuel	4,742
Sold or Other Disposition (Detail Below)	3,794,825
Meter Difference	(65,841)
Returned to Earth	0
Vented	0
Shrinkage	104,094
TOTAL	3,642,686

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,471,109
Witco Carbon Company	Eunice, New Mexico	Industrial	923,716

TOTAL				3,326,823

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	2,326	0	77,451	79,777	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	2,326	0	77,451	79,777	0

REMARKS: 79,777 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

Subscribed and Sworn to before me on this the 15th day of April 19 50

/s/ W. L. Mehaffey Notary Public

In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

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[9556]

[This page is identical to Record page 9552 which appears at pages 1392-1393 of this volume and therefor is not reprinted.]

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[9557]

OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of April 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

		Volume M.C.F.
TOTAL GAS FROM OIL WELLS	(Details on Sheet 2)	3,406,909
TOTAL GAS FROM GAS WELLS	(Details on Sheet 2)	137,503
TOTAL GAS FROM OTHER SOURCES	(Details on Sheet 2)	0
TOTAL		3,544,412

Disposition of Residue

	Volume M.C.F.
Plant Fuel	197,552
Returned For Lease Fuel	5,032
Sold or Other Disposition (Detail Below)	3,201,167
Returned to Earth	0
Vented	38,522
Shrinkage	102,139
TOTAL	3,544,412

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,210,065
Witco Carbon Company	Eunice, New Mexico	Industrial	991,102
TOTAL			3,201,167

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[This page is identical to Record page 9552 which appears at pages 1992-1993 of this volume and therefor is not reprinted.]

[9558]

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	75,996	75,996	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	75,996	75,996	0

REMARKS: 75,996 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

Subscribed and Sworn to before me on this the 15th day of May 19 50

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

/s/ W. L. Mehaffey Notary Public

In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

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OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of May 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,552,199
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	166,999
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,719,198

Disposition of Residue

	Volume M.C.F.
Plant Fuel	205,418
Returned For Lease Fuel	4,917
Sold or Other Disposition (Detail Below)	3,353,176
Returned to Earth	0
Vented	49,533
Shrinkage	106,154
TOTAL	3,719,198

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,326,837
Witco Carbon Company	Eunice, New Mexico	Industrial	1,026,339

1400

[9559]

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	78,984	78,984	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	78,984	78,984	0

REMARKS: 78,984 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

Subscribed and Sworn to before me on this the 15th day of June 1950

/s/ D. M. Hankins Gas Superintendent
(Signature) (Title)

/s/ W. L. Mehaffey Notary Public
In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

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[9560]

[This page is identical to Record page 9552 which appears at pages 1392-1393 of this volume and therefor is not reprinted.]

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OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of June 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,398,410
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	181,470
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,579,880

Disposition of Residue

	Volume M.C.F.
Plant Fuel	197,352
Returned For Lease Fuel	4,894
Sold or Other Disposition (Detail Below)	3,044,440
Returned to Earth	0
Vented	231,774
Shrinkage	101,420
TOTAL	3,579,880

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,097,273
Witco Carbon Company	Eunice, New Mexico	Industrial	947,167

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[9561]

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TOTAL					3,044,440

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	75,461	75,461	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	75,461	75,461	0

REMARKS: 75,461 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

Subscribed and Sworn to before me on this the 14th day of July 19 50

/s/ Donald E. Cooper Notary Public

In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

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[9562]

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OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of July 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,527,716
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	211,791
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,739,507

Disposition of Residue

	Volume M.C.F.
Plant Fuel	205,729
Returned For Lease Fuel	5,146
Sold or Other Disposition (Detail Below)	3,376,812
Meter Difference	(22,899)
Returned to Earth	0
Vented	69,621
Shrinkage	105,098
TOTAL	3,739,507

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,447,000
Witco Carbon Company	Eunice, New Mexico	Industrial	929,812

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TOTAL

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	78,198	78,198	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	78,198	78,198	0

REMARKS: 78,198 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

Subscribed and Sworn to before me on this the 15th day of August 19 50

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

/s/ W. L. Mahaffay Notary Public In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

[9564]

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OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of August 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

		Volume M.C.F.
TOTAL GAS FROM OIL WELLS	(Details on Sheet 2)	3,708,783
TOTAL GAS FROM GAS WELLS	(Details on Sheet 2)	175,194
TOTAL GAS FROM OTHER SOURCES	(Details on Sheet 2)	0
TOTAL		3,883,977

Disposition of Residue

	Volume M.C.F.
Plant Fuel	208,225
Returned For Lease Fuel	5,380
Sold or Other Disposition (Detail Below)	3,529,352
Meter Difference	(37,728)
Returned to Earth	0
Vented	67,373
Shrinkage	111,375
TOTAL	3,883,977

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,563,849
Witco Carbon Company	Eunice, New Mexico	Industrial	965,503

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TOTAL

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	82,868	82,868	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	82,868	82,868	0

REMARKS: 82,868 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

Subscribed and Sworn to before me on this the 15th day of September 19 50

/s/ W. L. Mehaffey Notary Public

In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

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OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of September 1950

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,553,768
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	146,796
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,700,564

Disposition of Residue	Volume M.C.F.
Plant Fuel	200,702
Returned For Lease Fuel	5,257
Sold or Other Disposition (Detail Below)	3,134,111
Meter Difference	(104,189)
Returned to Earth	0
Vented	360,508
Shrinkage	104,172
TOTAL	3,700,564

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,125,114
Witco Carbon Company	Eunice, New Mexico	Industrial	1,008,997

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TOTAL

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	77,509	77,509	0
Butane					
Propane					
Kerosene					
Other					0
TOTAL	0	0	77,509	77,509	

REMARKS: 77,509 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

Subscribed and Sworn to before me on this the 13th day of October 1950

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

/s/ M. L. Mehaffey Notary Public

In and for Ector County, Texas

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[9568]

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STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of October 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,556,762
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	202,069
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,758,831

Disposition of Residue

	Volume M.C.F.
Plant Fuel	207,597
Returned For Lease Fuel	5,875
Sold or Other Disposition (Detail Below)	3,478,978
Meter Difference	(94,455)
Returned to Earth	0
Vented	54,211
Shrinkage	106,625
TOTAL	3,758,831

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,456,348
Witco Carbon Company	Eunice, New Mexico	Industrial	1,022,630

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TOTAL				3,478,978

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	79,334	79,334	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	79,334	79,334	0

REMARKS: 79,334 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

Subscribed and Sworn to before me on this the 15th day of November 19 50

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

/s/ W. L. Mahaffey Notary Public

In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

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[9570]

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OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of November 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,366,616
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	210,331
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,576,947

Disposition of Residue

	Volume M.C.F.
Plant Fuel	198,561
Returned For Lease Fuel	5,679
Sold or Other Disposition (Detail Below)	3,331,224
Meter Difference	(140,188)
Returned to Earth	0
Vented	82,874
Shrinkage	98,797
TOTAL	3,576,947

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,343,457
Witco Carbon Company	Eunice, New Mexico	Industrial	987,767
TOTAL			3,331,224

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	73,510	73,510	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	73,510	73,510	0

REMARKS: 73,510 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Eator

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

/s/ D. M. Hankins Gas Superintendent
(Signature) (Title)

Subscribed and Sworn to before me this the 16th day of December 19 50

/s/ M. L. Mahaffey Notary Public
In and for Eator County, Texas

*(Follow instructions on Reverse Side)

[9572]

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[9573]

OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of December 19 50

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,426,647
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	215,211
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,641,858

Disposition of Residue

	Volume M.C.F.
Plant Fuel	202,815
Returned For Lease Fuel	5,649
Sold or Other Disposition (Detail Below)	3,433,853
Meter Difference	(223,851)
Returned to Earth	0
Vented	123,388
Shrinkage	100,004
TOTAL	3,641,858

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,399,118
Witco Carbon Company	Eunice, New Mexico	Industrial	1,034,735
TOTAL			3,433,853

Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate	0	0	74,408	74,408	0
Gasoline					
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	74,408	74,408	0

REMARKS: 74,408 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Eator

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

Subscribed and Sworn to before me /s/ D. M. Hankins Gas Superintendent
(Title)
on this the 15th day of January 19 51
(Signature)
/s/ M. L. Wheatley Notary Public

In and for Eator County, Texas

*(Follow instructions on Reverse Side)

[9574]

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[9575]

OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-116
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of January 19 51

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,333,390
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	208,854
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,542,244

Disposition of Residue

	Volume M.C.F.
Plant Fuel	200,497
Returned For Lease Fuel	5,811
Sold or Other Disposition (Detail Below)	3,308,038
Meter Difference	(169,546)
Returned to Earth	0
Vented	100,824
Shrinkage	96,620
TOTAL	3,542,244

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,254,451
Witco Carbon Company	Eunice, New Mexico	Industrial	1,053,587

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Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	71,890	71,890	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	71,890	71,890	0

REMARKS: 71,890 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

Subscribed and Sworn to before me on this the 15th day of February 19 51

/s/ D. M. Hankins Gas Superintendent
(Signature) (Title)

/s/ W. L. Mahaffey Notary Public
In and for Ector County, Texas

*(Follow Instructions on Reverse Side)

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[9577]

OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of February 19 51

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

	Volume M.C.F.
TOTAL GAS FROM OIL WELLS (Details on Sheet 2)	3,091,286
TOTAL GAS FROM GAS WELLS (Details on Sheet 2)	161,015
TOTAL GAS FROM OTHER SOURCES (Details on Sheet 2)	0
TOTAL	3,252,301

Disposition of Residue

	Volume M.C.F.
Plant Fuel	182,134
Returned For Lease Fuel	6,539
Sold or Other Disposition (Detail Below)	3,098,303
Meter Difference	(124,531)
Returned to Earth	0
Vented	0
Shrinkage	89,856
TOTAL	3,252,301

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,180,339
Witco Carbon Company	Eunice, New Mexico	Industrial	917,964

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[95578]

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Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	66,857	66,857	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	66,857	66,857	0

REMARKS: 66,857 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

Subscribed and Sworn to before me on this the 15th day of March 1951

/s/ W. L. Mahaffey Notary Public in and for Ector County, Texas

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OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Form C-114
Sheet 1

GASOLINE OR OTHER EXTRACTION PLANT MONTHLY REPORT

Report of Phillips Petroleum Company Month of March 19 51

Address Bartlesville, Oklahoma (Main Office) Eunice (Plant)

REPORT ALL VOLUMES IN M.C.F. AT 14.4 LBS. PLUS 10 OZ. PRESSURE

INTAKE VOLUME

		Volume M.C.F.
TOTAL GAS FROM OIL WELLS	(Details on Sheet 2)	3,634,994
TOTAL GAS FROM GAS WELLS	(Details on Sheet 2)	134,153
TOTAL GAS FROM OTHER SOURCES	(Details on Sheet 2)	0
TOTAL		3,769,147

Disposition of Residue

	Volume M.C.F.
Plant Fuel	206,473
Returned For Lease Fuel	6,378
Sold or Other Disposition (Detail Below)	3,462,644
Meter Difference	(209,637)
Returned to Earth	0
Vented	197,270
Shrinkage	106,019
TOTAL	3,769,147

Detail of Sale or Other Disposition of Residue

Name of Purchaser or User	Address	Used For	M. C. F.
El Paso Natural Gas Co.	El Paso, Texas	Industrial & Domestic	2,450,814
Witco Carbon Company	Eunice, New Mexico	Industrial	1,011,830

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Plant Production, Receipts, Deliveries and Stock in Barrels of 42 U. S. Gallons

Product	Opening Stock	Receipts	Production	Deliveries*	Closing Stock
Oil					
Condensate					
Gasoline	0	0	78,883	78,883	0
Butane					
Propane					
Kerosene					
Other					
TOTAL	0	0	78,883	78,883	0

REMARKS: 78,883 barrels delivered to Phillips Petroleum Company at Hobbs, New Mexico

AFFIDAVIT

STATE OF Texas
County of Ector

D. M. Hankins, the undersigned person; who on this day personally appeared before me and is known to me to be the person whose name is subscribed to this report after being by me duly sworn on oath or affirmation states that he is authorized to make and execute this report, including all attached sheets, that this report is a true and correct reflection of the record of the operations reported herein, and that no pertinent matter inquired about in this report has been omitted therefrom.

Name of Operator Phillips Petroleum Company

Subscribed and Sworn to before me on this the 13th day of April 1951

/s/ D. M. Hankins (Signature) Gas Superintendent (Title)

/s/ W. L. Mahaffey Notary Public in and for Ector County, Texas

*(Follow Instructions on Reverse Side)

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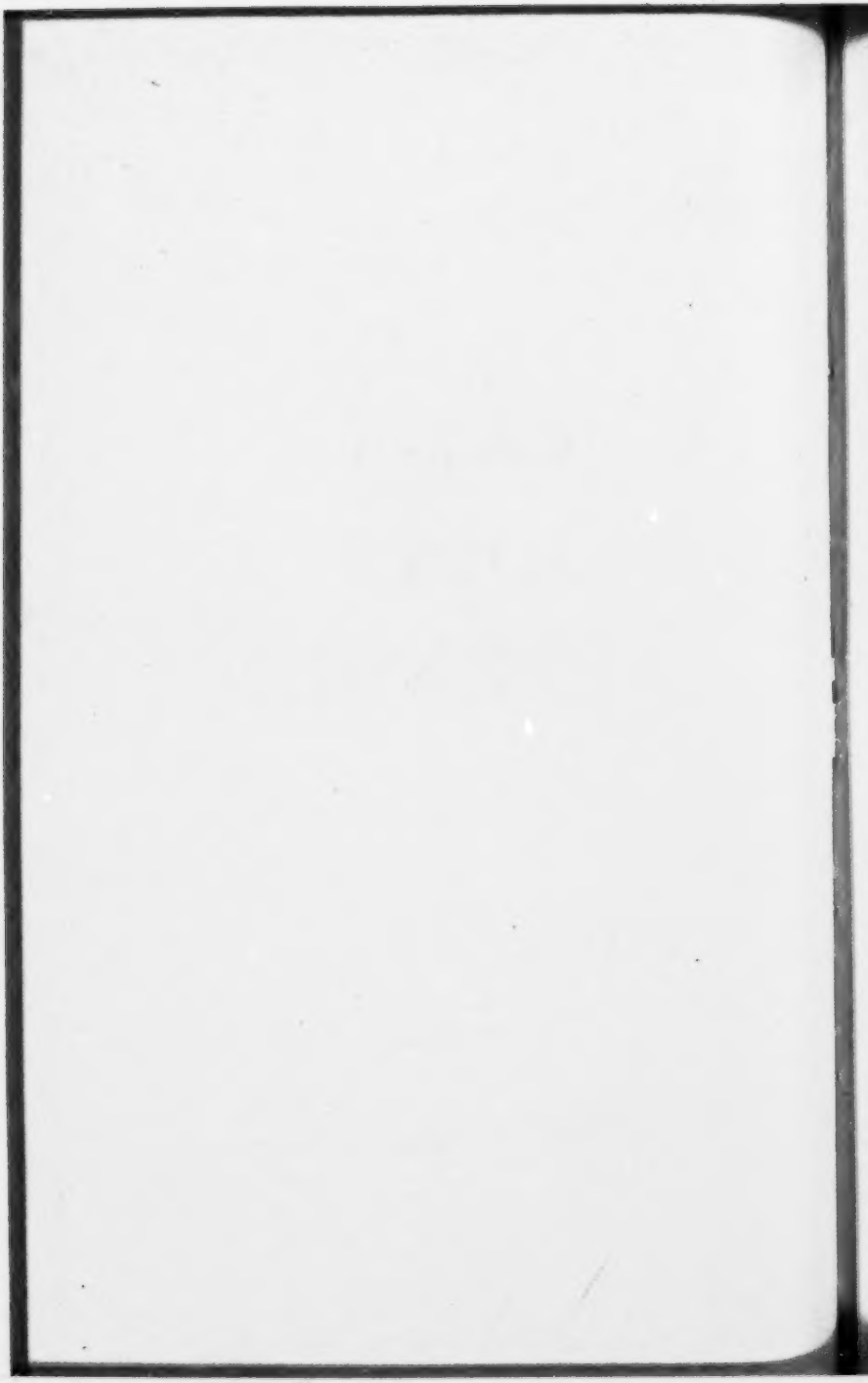
Volume V

JOINT APPENDIX



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VOLUME V JOINT APPENDIX

United States Court of Appeals

FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11247

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11241

CITY OF DETROIT, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11242

CITY OF KANSAS CITY, MISSOURI, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11245

CITY OF MILWAUKEE, WISCONSIN, a Municipal Corporation, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

No. 11252

COUNTY OF WAYNE, MICHIGAN, Petitioner,

versus

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY ET AL., Intervenors.

Review of An Order of the Federal Power Commission

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[9581] Exhibit No. 173

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

Intake Pressure 250 P.S.I. Avg. Tested GPM .290 Recovered GPM .369

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4	Refinery and Storage Vapors		
5.	Gas From Other Sources TIEOVER FROM ROCK CREEK	163,867	5,079,866
	TOTALS	163,867	5,079,866

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1 Extraction Loss	4,694	145,508	7 Repressuring		
2 Plant Fuel	2,563	79,448	8. Recycling		
3 Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	156,610	4,854,910
5 Gas Lift			11 Vented to Air	0	0
6 Press. Maint			12. TOTALS	163,867	5,079,866

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	4,854,910

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2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,761	85,581	7		
4 Kerosene			8		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No	Bbls Received
Natural Gasoline		
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-6788	100,000	85,581

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1 Opening Tender Balance		0					
2 Frozen Stock		0					
3 Total Opening Stock		0					
4 Received		0					
5 Produced		85,581					
6 Delivered		85,581					
7 Loss		0					
8 Total Closing Stock		0					
9 Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By /s/ G. F. ROBIE Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of FEBRUARY, 19 50

/S/ JEARLEE HUNSAKER
JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas

Railroad Commission Seal Number 10-45-A Approved this 23 day of FEBRUARY, 19 50.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 3rd-1st, 19 50 BY /s/ THURMOND CLINE

(Follow Instructions on Reverse Side)

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[9582]

GENERAL INSTRUCTIONS

Form GP-1

1. The address as required on this report shall be clear and definite as to Street Number, City and State.

2. This report is required of all plants extracting hydrocarbon liquids from natural gas, including gasoline, butane, propane, condensate, kerosene, or other derivatives from natural gas, and refinery storage vapors, including recovery of liquids from drips. All gas volumes must be reported at a base pressure of 14.4 pounds plus four ounces. All liquid quantities shown on this report shall be in barrels of 42 U. S. gallons based upon actual physical gauges computed from 100% U. S. Tank Tables or other method of measurement approved by the Commission. DO NOT use fractions of thousands of cubic feet of gas, or fractions of barrels of liquids on this report.

3. Include on this report only gas and vapors taken into gas processing plants. Make a separate report for each plant. Report on Form 3-266-A, Gas Production Report, all gas taken from wells and not taken into plant. Report on Form GP-1 all liquids recovered from drips and show in space provided for "Type of Plant" the word "Drip."

4. This report shall be filed in four (4) duplicate originals with the Deputy Supervisor of the Railroad Commission of Texas for the district in which the plant is located as soon after the first of the month as possible for the preceding month, and never later than the fifteenth of the month.

5. Do not report on this form operations of pressure maintenance or repressuring plant where gas is not processed for the recovery of liquid hydrocarbons; Use Form PM-1. If any space does not apply, fill in the word "None." Please use typewriter if possible.

6. Gas processing plants are required to file Form GP-1 to report plant operations; Form GP-2 to report production of all natural gas taken into plant; and Form GP-3 to report injection into reservoirs where pressure maintenance, recycling or repressuring is conducted. Where gas is taken into a plant from a transmission line for processing, show in space for "Number of Wells" the words "Main Line." (Does not apply to local gathering systems.) Show source of "Gas from Other Sources" and "Refinery and Storage Vapors."

7. In section "Disposition of Residue" show as follows: **Fuel System:** Gas used by yourself, sold, or given to others for use in drilling operations or for pumping wells; **Lease Use:** Gas used by yourself, sold or given for use in lease dwellings and other domestic uses; **Gas Lift (Jetting):** Gas used, sold, or given for injection through injection wells into oil sands to increase gas drive energy in secondary recovery operations—**Restoring gas-drive energy** in depleted reservoirs. **Pressure Maintenance:** Gas used, sold or given for injection into oil sands to maintain pressure at or near initial reservoir pressure or pressures at time injection of gas started. **Recycling:** Gas returned to original reservoirs after extraction of liquid hydrocarbons. **Transmission Line:** Gas to pipe line generally for the light and fuel market.

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INSTRUCTIONS FORM GP-2

1. Report on this form in four (4) duplicate originals all natural gas taken into plant. DO NOT include any natural gas produced and sold or otherwise disposed of and not taken into plant on this form, but report on Form 3-266-A.

2. Report the volume of gas taken from oil wells (i.e., casinghead) by leases. The volume of gas taken from gas wells shall be reported separately for each well which is assigned a gas allowable on schedules issued by the Commission. In cases where no schedules of allowables are issued by the Commission, volumes of gas taken from gas wells may be reported by leases where two or more wells are located on the same lease and producing from the same reservoir, and where the average production does not exceed 100,000 cubic feet per well per day; or where the total production of all wells on the lease does not exceed 25% of the open flow potential of the well on the lease having the lowest potential.

3. Show under column "Kind of Gas" whether "Sweet," "sour" (from gas wells), or "casinghead" gas. (Gas produced with oil.)

4. Prepare a separate Form GP-2 for each reservoir. Segregate production by counties if more than one county included in reservoir; and segregate by kinds of gas (i.e., "sweet," "sour" gas from gas wells, and "casinghead" gas from oil wells). Show name of well owner, lease name, kind of gas, well number, daily open flow potential, allowable (if assigned on schedule) and monthly take for each gas well. If permitted to report by lease totals as provided by paragraph 2, show complete description of each gas well. All wells classified as gas wells shall be reported each month whether produced or shut-in. If no take show "None." Show the name of well owner, lease name, kind of gas (casinghead), well numbers, and the monthly take from each lease in reporting gas taken from oil wells. If gas is classified as dry sweet, or dry sour, and produced from a Brandenhead, shows the letters "BH" after the well number.

5. Gas wells producing condensate and /or crude oil which are equipped with separators and where liquids are also gathered from leases are required to be reported separately and the take from each well shown. Report on Form BO-1 all liquids gathered from separators on leases and not recovered in plants.

6. If any well or wells are disconnected from or any new wells connected to reporting company's gathering system, such changes shall be reported to the Commission by letter. Attach Forms GP-2 to Form GP-1 for each plant.

INSTRUCTIONS FORM GP-3

1. Gas processing plants which return gas to reservoirs in pressure maintenance, recycling or repressuring operations are required to report on this form the volume of gas or residue injected into each reservoir through each injection well.

2. This report shall be prepared in four (4) duplicate originals and attached to Form GP-1.

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[9583]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE Daily Average Intake Capacity of Plant 77,000
(Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.)

Avg. Intake Pressure 250 P.S.I. Avg. Tested GPM .290 Recovered GPM .398

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. ____	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. ____	Gas From Sweet Gas Wells " " " "		
3. ____	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources — TIEOVER FROM ROCK CREEK	175,468	4,913,113
	TOTALS	175,468	4,913,113

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	5,033	140,929	7. Repressuring		
2. Plant Fuel	3,084	86,356	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	167,351	4,685,828
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	175,468	4,913,113

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	4,685,828

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

[9584]

1429

1. Condensate			5. Butane	
2. Crude Oil			6. Propane	
3. Gasoline (as made)	2,917	81,687	7.	
4. Kerosene			8.	

Section V — Tender Operations Statement — List Tenders in Numerical Order

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline			Natural Gasoline	10-6882	125,000	81,687
Drip Gasoline	10-6917	746	Drip Gasoline	10-6918	15,000	746
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		81,687					
6. Delivered		81,687					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of MARCH, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-B Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 4th-1st, 1950 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

9585

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

( ) Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .387

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

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[9585]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. ____	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. ____	Gas From Sweet Gas Wells " " " "		
3. ____	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources TIEOVER FROM ROCK CREEK	175,068	5,427,116
	TOTALS	175,068	5,427,116

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,937	122,051	7. Repressuring		
2. Plant Fuel	3,066	95,050	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	168,065	5,210,015
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	175,068	5,427,116

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	5,210,015

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,844	88,152	7.		
4. Kerosene			8.		

Section V Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline			Natural Gasoline	10-6973	125,000	88,152
Drip Gasoline	10-6975	2,054	Drip Gasoline	10-6973	15,000	2,054
TOTALS						

List Tenders in Numerical Order

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0				0	
2. Frozen Stock		0				0	
3. Total Opening Stock		0				0	
4. Received		0				0	
5. Produced		88,152				2,054	
6. Delivered		88,152				2,054	
7. Loss		0				0	
8. Total Closing Stock		0				0	
9. Frozen Stock		0				0	
10. Closing Tenderable Balance		0				0	

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

The STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL, 19 50.

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-C Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th-1st, 19 50 BY _____
(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of APRIL, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

Average Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .416

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. ____	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. ____	Gas From Sweet Gas Wells " " " "		
3. ____	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources TIEOVER FROM ROCK CREEK	172,917	5,187,520
	TOTALS	172,917	5,187,520

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,250	97,505	7. Repressuring		
2. Plant Fuel	2,910	87,305	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	166,757	5,002,710
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	172,917	5,187,520

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
EL PASO NATURAL GAS CO.	DUMAS, TEXAS	INDUSTRIAL	5,002,710

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,805	84,159	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS				List Tenders in Numerical Order ACTUAL DELIVERIES		
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
DRIP GASOLINE	10-7166 for 15,000 Bbls.	825	NATURAL GASOLINE AND DRIP GASOLINE	10-7164	140,000	84,984
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		84,984					
6. Delivered		84,984					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath swore that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and undered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further swore that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of MAY, 1950.

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County Texas.

Railroad Commission Seal Number 10-45-D Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 6th-1st, 1950 BY _____

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MAY, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .407

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

INTAKE VOLUME

Section I

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4	Refinery and Storage Vapors TIEOVER FROM ROCK CREEK	161,568	5,008,620
5	Gas From Other Sources	161,568	5,008,620
	TOTALS		

DISPOSITION OF RESIDUE GAS

Section II

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1 Extraction Loss	3,618	112,164	7 Repressuring		
2. Plant Fuel	3,254	100,880	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4 Fuel System			10. Transmission Line	154,696	4,795,576
5 Gas Lift			11. Vented to Air	0	0
6 Press. Maint.			12 TOTALS	161,568	5,008,620

DETAIL OF SALE OF RESIDUE GAS

Section III

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	4,795,576

1 Condensate			5 Butane		
2 Crude Oil			6 Propane		
3 Gasoline (as made)	2,715	84,159	7		
4 Kerosene			8		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Drip Gasoline	10-7166	49
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7164	140,000	84,159
Drip Gasoline	10-7164	140,000	49

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1 Opening Tender Balance		0				0	0
2. Frozen Stock		0				0	0
3. Total Opening Stock		0				0	0
4. Received		0				49	49
5. Produced		84,159				0	84,159
6 Delivered		84,159				49	84,208
7 Loss		0				0	0
8 Total Closing Stock		0				0	0
9. Frozen Stock		0				0	0
10 Closing Tenderable Balance		0				0	0

Signed PHILLIPS PETROLEUM COMPANY By ..... Title SENIOR ENGINEER

THE STATE OF TEXAS }
COUNTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared ..... C. F. Robie ..... known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period

Subscribed and sworn to before me this 14th day of JUNE, 19 50

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-E Approved this ..... day of ....., 19 .....

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 7th-1st 19 50 BY .....

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JUNE, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .415

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

INTAKE VOLUME

Section I — Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2	.....	.....
2.	Gas From Sweet Gas Wells " " " "	.....	.....
3.	Gas From Sour Gas Wells " " " "	.....	.....
4.	Refinery and Storage Vapors	.....	.....
5.	Gas From Other Sources TIEOVER FROM ROCK CREEK	130,965	3,928,961
	TOTALS	130,965	3,928,961

DISPOSITION OF RESIDUE GAS

Section II	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,988	119,645	7 Repressuring	.....	.....
2 Plant Fuel	3,190	95,706	8 Recycling	.....	.....
3. Lease Use	.....	.....	9 Carbon Black Plants	.....	.....
4. Fuel System	.....	.....	10 Transmission Line	123,787	3,713,610
5. Gas Lift	.....	.....	11 Vented to Air	0	0
6. Press. Maint	.....	.....	12. TOTALS	130,965	3,928,961

DETAIL OF SALE OF RESIDUE GAS

Section III — Name of Purchaser	Address	Used for	M C.F. Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	3,713,610

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,347	70,413	7.		
4. Kerosene			8.		

Section V — **Tender Operations Statement**

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Drip Gasoline		
TOTALS		

List Tenders in Numerical Order
ACTUAL DELIVERIES

Commodity	Tender No	Amt. of Tender	Bbls. Ld.
Natural Gasoline	10-7258	125,000	70,413
Drip Gasoline	10-7258	15,000	

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		70,413					
6. Delivered		70,413					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By ..... Title SENIOR ENGINEER

I. STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct, that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of JULY, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-F Approved this ..... day of ....., 19 .....

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 8th-1st, 19 50 BY .....

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JULY 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

g. Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .430

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

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Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5	Gas From Other Sources TIEOVER FROM ROCK CREEK	116,854	3,622,464
	TOTALS	116,854	3,622,464

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,865	119,810	7. Repressuring		
2. Plant Fuel	2,963	91,848	8. Recycling		
3 Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	110,026	3,410,806
5 Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	116,854	3,622,464

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	3,410,806

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,095	64,949	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7349	140,000	64,949
Drip Gasoline	10-7351		
TOTALS			

Section VI — Barrels

Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		64,949					
6. Delivered		64,949					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of AUGUST 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-G Approved this day of 19

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 9th-1st 19 50 BY

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev 7-1-46

RRCT DIST NO 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of AUGUST, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

Avg. Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .406

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources TIEOVER FROM ROCK CREEK	114,686	3,555,275
	TOTALS	114,686	3,555,275

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,394	105,219	7. Repressuring		
2. Plant Fuel	2,987	92,601	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	108,305	3,357,455
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	114,686	3,555,275

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M C F Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	3,357,455

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,209	68,475	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No	Bbls. Received
Drip Gasoline	10-7441	15,000
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No	Amt of Tender	Bbls Del'd.
Natural Gasoline Drip Gasoline	10-7439	140,000	68,475

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1 Opening Tender Balance		0					
2 Frozen Stock		0					
3 Total Opening Stock		0					
4 Received		0					
5 Produced		68,475					
6. Delivered		68,475					
7. Loss		0					
8 Total Closing Stock		0					
9. Frozen Stock		0					
10 Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By ..... Title SENIOR ENGINEER

STATE OF TEXAS }
COUNTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of SEPTEMBER, 19 50

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-H Approved this ..... day of ....., 19.....

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 10th-1st, 19 50 BY .....

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of SEPTEMBER, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

g. Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .438

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources — TIEOVER FROM ROCK CREEK	103,675	3,110,256
	TOTALS	103,675	3,110,256

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,181	95,433	7. Repressuring		
2. Plant Fuel	3,250	97,503	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	97,244	2,917,320
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12 TOTALS	103,675	3,110,256

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	2,917,320

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[9567]

2. Crude Oil			5. Butane		
3. Gasoline (as made)	2,192	65,765	6. Propane		
4. Kerosene			7.		
			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Drip Gasoline	10-7529		Natural Gasoline Drip Gasoline	10-7527	140,000	65,765
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		65,765					
6. Delivered		65,765					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of OCTOBER, 1950

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-I Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 11th-1st, 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of October, 1950

Main Office Bartlesville, Oklahoma Local or Field Office Phillips, Texas

Plant Name Dumas Field West County Moore

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

(g. Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .519

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources TIEOVER FROM ROCK CREEK	82,320	2,551,933
	TOTALS	82,320	2,551,933

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	2,515	77,972	7. Repressuring		
2. Plant Fuel	2,994	92,820	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	76,811	2,301,141
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	82,320	2,551,933

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	2,301,141

1 Condensate			5 Butane		
2 Crude Oil			6. Propane		
3 Gasoline (as made)	2,105	65,252	7		
4 Kerosene			8		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Drip Gasoline	10-7620		Natural Gasoline Drip Gasoline	10-7618	140,000	65,252
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1 Opening Tender Balance		0					
2 Frozen Stock		0					
3 Total Opening Stock		0					
4 Received		0					
5 Produced		65,252					
6. Delivered		65,252					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10 Closing Tenderable Balance		0					

Signed Phillips Petroleum Company By ..... Title Senior Engineer

TX - STATE OF TEXAS
COUNTY OF Hutchinson

BEFORE ME, The undersigned authority, on this day personally appeared G. F. Robie, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of November, 19 50

JEARLEE HUNSAKER

Notary Public in and for Hutchinson County, Texas

Railroad Commission Seal Number 10-45-J Approved this ..... day of ....., 19.....

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 12th-1st, 1950 BY .....

(Follow Instructions on Reverse Side)

52142-D

9600

[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

[9600]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of November, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Phillips, Texas

Plant Name Dumas Field West County Moore

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

( ) Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .413

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	Refinery and Scrubber Vapors		
5.	Gas From Other Sources Tieover from Rock Creek	98,305	2,949,164
	TOTALS	98,305	2,949,164

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,271	98,137	7. Repressuring		
2. Plant Fuel	2,788	83,647	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	92,246	2,767,380
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	98,305	2,949,164

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
El Paso Natural Gas Co.	Dumas, Texas	Industrial	2,767,380

1446

[9601]

9601

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,277	68,143	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Drip Gasoline	10-7711	715
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7709	125,000	68,143
Drip Gasoline	10-7709	15,000	715
TOTALS			

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0				0	0
2. Frozen Stock		0				0	0
3. Total Opening Stock		0				0	0
4. Received		0				0	0
5. Produced		68,143				715	68,858
6. Delivered		68,143				715	68,858
7. Loss		0				0	0
8. Total Closing Stock		0				0	0
9. Frozen Stock		0				0	0
10. Closing Tenderable Balance		0				0	0

Signed Phillips Petroleum Co. By _____ Title Senior Engineer

STATE OF TEXAS
COUNTY OF Hutchinson

BEFORE ME, The undersigned authority, on this day personally appeared G. F. Robie known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath swore that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such tenderers of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission, of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of December 1950

Hazel N. Martin

Notary Public in and for Hutchinson County, Texas.

Railroad Commission Seal Number 10-45-K Approved this _____ day of _____ 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 1st - 1st 19 51 BY _____

(Follow Instructions on Reverse Side)

52142-D

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

[9602]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

9603

Operator PHILLIPS PETROLEUM COMPANY Month of DECEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 77,000

Avg. Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .339

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1448

[9603]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources TIEOVER FROM ROCK CREEK	160,850	4,986,358
	TOTALS	160,850	4,986,358

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	4,992	154,756	7. Repressuring		
2. Plant Fuel	3,114	96,538	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	152,714	4,735,064
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	160,850	4,986,358

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
EL PASO NATURAL GAS CO.	DUMAS, TEXAS	INDUSTRIAL	4,735,064

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,724	84,446	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	) 10-7805	125,000	84,446
Drip Gasoline	10-7807	1,738	Drip Gasoline	)	15,000	1,738
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		84,446					
6. Delivered		84,446					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared _____ G. F. ROBIE _____, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of JANUARY, 19 51

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10m45m3. Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 2nd - 1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

52142-D

[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

9605

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Reprocessing—etc.) Daily Average Intake Capacity of Plant 180,000

g. Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .377

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1450

[19605]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. ____	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. ____	Gas From Sweet Gas Wells " " " "		
3. ____	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources TIDEOVER FROM ROCK CREEK	181,309	5,620,581
	TOTALS	181,309	5,620,581

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	5,674	175,895	7. Repressuring		
2. Plant Fuel	3,256	100,937	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	172,379	5,343,749
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	181,309	5,620,581

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
EL PASO NATURAL GAS CO.	DUMAS, TEXAS	INDUSTRIAL	5,343,749

1. Condensate ____ ____ 2. Butane ____ ____

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,990	92,682	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
DRIP GASOLINE	10-7910	2,868
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10,7908	125,000	92,682
DRIP GASOLINE		15,000	2,868

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0				0	0
2. Frozen Stock		0				0	0
3. Total Opening Stock		0				0	0
4. Received		0				2,868	2,868
5. Produced		92,682				0	92,682
6. Delivered		92,682				2,868	95,550
7. Loss		0				0	0
8. Total Closing Stock		0				0	0
9. Frozen Stock		0				0	0
10. Closing Tenderable Balance		0				0	0

Signed PHILLIPS PETROLEUM CO. By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of FEBRUARY, 19 51

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-A Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 3rd-1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

52142-D

[9606]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Avg. Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .367

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources TIEOVER FROM ROCK CREEK	181,882	5,092,705
	TOTALS	181,882	5,092,705

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	7,373	206,453	7. Repressuring		
2. Plant Fuel	3,391	94,948	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	171,118	4,791,304
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	181,882	5,092,705

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
EL PASO NATURAL GAS CO.	DUMAS, TEXAS	INDUSTRIAL	4,791,304

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,788	78,051	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Drip Gasoline	10-8007	3,417
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-8004	125,000	78,051
Drip Gasoline		15,000	3,417
TOTALS			

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0				0	0
2. Frozen Stock		0				0	0
3. Total Opening Stock		0				0	0
4. Received		0				3,417	3,417
5. Produced		78,051				0	78,051
6. Delivered		78,051				3,417	81,468
7. Loss		0				0	0
8. Total Closing Stock		0				0	0
9. Frozen Stock		0				0	0
10. Closing Tenderable Balance		0				0	0

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he is duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of March 19 51

HAZEL N. MARTIN

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-B Approved this _____ day of _____ 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. _____ 19____ BY _____

(Follow Instructions on Reverse Side)

52142-D

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[9609]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-I
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name DUMAS Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Avg. Intake Pressure 250 P.S.I. Avg. Tested GPM .293 Recovered GPM .426

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. ____	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. ____	Gas From Sweet Gas Wells " " " "		
3. ____	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources TIEOVER FROM ROCK CREEK	173,678	5,384,032
	TOTALS	173,678	5,384,032

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	6,270	194,377	7. Repressuring		
2. Plant Fuel	3,221	99,858	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	164,187	5,089,797
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	173,678	5,384,032

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
EL PASO NATURAL GAS CO.	DUMAS, TEXAS	INDUSTRIAL	5,089,797

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,890	89,588	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Drip Gasoline	10-8101	3,785
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-8098	125,000	89,588
Drip Gasoline		15,000	3,785
TOTALS			

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0				0	0
2. Frozen Stock		0				0	0
3. Total Opening Stock		0				0	0
4. Received		0				3,785	3,785
5. Produced		89,588				0	89,588
6. Delivered		89,588				3,785	93,373
7. Loss		0				0	0
8. Total Closing Stock		0				0	0
9. Frozen Stock		0				0	0
10. Closing Tenderable Balance		0				0	0

Signed PHILLIPS PETROLEUM COMPANY By _____ Title GAS SUPERINTENDENT

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared W. S. ETCHIESON, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL, 1951

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-45-C Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th - 1st, 1951 BY _____

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Exhibit No. 174

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Av. Intake Pressure 350 P.S.I. Avg. Tested GPM .290 Recovered GPM .282

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.		Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	147	Gas From Sweet Gas Wells	94,853	2,940,429
3.	8	Gas From Sour Gas Wells	4,063	125,944
4.	[redacted]	OKLAHOMA SYSTEM	7,495	232,347
5.	Gas From Other Sources	TIEOVER FROM ROCK CREEK	65,091	2,017,823
		TOTALS	171,502	5,316,543

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	4,233	131,214	7. Repressuring		
2. Plant Fuel	2,313	71,693	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	164,956	5,113,636
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	171,502	5,316,543

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	5,113,636

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,309	71,573	7.		
4. Kerosene			8.		

Section V **Tender Operations Statement**

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Natural Gasoline		
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-6789	100,000	71,573

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		71,573					
6. Delivered		71,573					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By /s/ G. F. ROBIE Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of FEBRUARY, 19 50

/s/ JEARLEE HUNSAKER
JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-A Approved this 23 day of FEBRUARY, 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 3rd-1st, 19 50 BY /s/ THURMOND CLINE

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF JANUARY RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2, Well Meters)	2,940,429	136,480	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM		10,536	
Less Deliveries From Gathering System			
GATHERING SYSTEM TO PLANT FOR PROCESSING	2,940,429	125,944	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling: Engines; plant fuel)	KERR McGEE		5,107	
	PHILLIPS PETROLEUM CO.		5,429	
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS			10,536	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2.

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

9614

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

g. Intake Pressure 350 P.S.I. Avg. Tested GPM .290 Recovered GPM .261

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

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[9614]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 148	Gas From Sweet Gas Wells " " " "	113,210	3,169,868
3. 9	Gas From Sour Gas Wells " " " "	4,206	117,767
[illegible]	OKLAHOMA SYSTEM	10,267	287,466
5. Gas From Other Sources	TIEUVER FROM ROCK CREEK	67,894	1,901,041
	TOTALS	195,577	5,476,142

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	4,285	119,973	7. Repressuring		
2. Plant Fuel	4,285	119,973	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	187,007	5,236,196
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	195,577	5,476,142

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	5,236,196

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,467	69,072	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Natural Gasoline		
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-6883	100,000	69,072

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		69,072					
6. Delivered		69,072					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of MARCH, 19 50.

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-B Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 4th-1st, 1950 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF FEBRUARY RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	3,169,868	141,562	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		23,795	
GATHERING SYSTEM TO PLANT FOR PROCESSING	3,169,868	117,767	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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[9616]

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM(Drilling; Engines; Plant Fuel)	KERR MCGEE		10,149	
	PHILLIPS PETROLEUM CO.		13,646	
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS			23,795	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Intake Pressure 350 P.S.I. Avg. Tested GPM .290 Recovered GPM .300

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 151	Gas From Sweet Gas Wells " " " "	96,029	2,976,913
3. 9	Gas From Sour Gas Wells " " " "	9,926	307,716
4. [redacted]	OKLAHOMA SYSTEM	6,656	206,330
5. Gas From Other Sources	TIEOVER FROM ROCK CREEK	85,513	2,650,907
	TOTALS	198,124	6,141,866

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,598	111,549	7. Repressuring		
2. Plant Fuel	2,330	72,241	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	192,196	5,958,076
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	198,124	6,141,866

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	5,958,076

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	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,671	82,793	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No	Amt. of Tender	Bbls. Del'd.
Natural Gasoline			Natural Gasoline	10-6974	100,000	82,793
TOTALS						

List Tenders in Numerical Order

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		82,793					
6. Delivered		82,793					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-C Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th-1st 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF MARCH RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	2,976,913	317,105	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		9,389	
	2,976,913	307,716	
GATHERING SYSTEM TO PLANT FOR PROCESSING			
Plant Intake (From Plant Meters)			
METER DIFFFERENCE (LOSSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Kerr McGee Oil Ind.		9,389	
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS			9,389	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

Form 5481 2-50

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of APRIL 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

g. Intake Pressure 350 P.S.I. Avg. Tested GPM .284 Recovered GPM .340

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 154	Gas From Sweet Gas Wells " " " "	89,003	2,670,108
3. 9	Gas From Sour Gas Wells " " " "	7,805	234,139
4. ~~[illegible]~~	OKLAHOMA SYSTEM	7,698	230,945
5. Gas From Other Sources	TIEOVER FROM ROCK CREEK	93,945	2,818,359
	TOTALS	198,451	5,953,551

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,061	91,841	7. Repressuring		
2. Plant Fuel	2,349	70,480	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	193,041	5,791,230
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	198,451	5,953,551

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
MICHIGAN-WISCONSIN LINE	KANSAS CITY, MISSOURI	INDUSTRIAL	5,791,230

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,385	71,550	7.		
4. Kerosene			8.		

Section V **Tender Operations Statement**

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10-7165	100,000	71,550

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		71,550					
6. Delivered		71,550					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on each states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of MAY, 19 50

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-D Approved this _____ day of _____, 19____

Void After 7:00 A. M. 6th-1st, 19 50

RAILROAD COMMISSION OF TEXAS

BY _____

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF APRIL RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	2,670,108	240,188	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		6,049	
GATHERING SYSTEM TO PLANT FOR PROCESSING	2,670,108	234,139	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; [redacted])	Kerr McGee Oil Ind.		5,283	
	Phillips Pet. Co.		766	
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS			6,049	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MAY, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .284 Recovered GPM .404

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

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[9623]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Total MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 159	Gas From Sweet Gas Wells " " " "	81,725	2,533,488
3. 9	Gas From Sour Gas Wells " " " "	6,773	209,968
4.	OKLAHOMA SYSTEM	7,778	241,113
5. Gas From Other Sources	TIEOVER FROM ROCK CREEK	103,828	3,218,655
	TOTALS	200,104	6,203,224

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	5,374	166,594	7. Repressuring		
2. Plant Fuel	2,365	73,315	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	192,365	5,963,315
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	200,104	6,203,224

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	5,963,315

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,413	74,795	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7165	100,000	74,795

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		74,795					
6. Delivered		74,795					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on each states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period

Subscribed and sworn to before me this 14th day of JUNE, 19 50.

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-E Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 7th-1st 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF MAY RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	2,533,488	224,690	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		14,722	
GATHERING SYSTEM TO PLANT FOR PROCESSING	2,533,488	209,968	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Kerr McGee Oil Ind.		14.722	
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS			14.722	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JUNE 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Intake Pressure 350 P.S.I. Avg. Tested GPM .284 Recovered GPM .487

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.		Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	171	Gas From Sweet Gas Wells " " " "	73,053	2,191,590
3.	45	Gas From Sour Gas Wells " " " "	22,233	666,976
4.		Refinery and Storage Vapors OKLAHOMA TIEOVER	10,354	310,621
5.		Gas From Other Sources TIEOVER FROM ROCK CREEK	88,740	2,662,203
		TOTALS	194,380	5,831,390

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	5,281	158,425	7. Repressuring		
2. Plant Fuel	2,363	70,885	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	186,736	5,602,080
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	194,380	5,831,390

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	5,602,080

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[9626]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,333	70,001	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7259	100.000	70,001

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		70,001					
6. Delivered		70,001					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of JULY, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-F Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 8th - 1st, 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF JUNE RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	2,191,590	691,314	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		24,338	
GATHERING SYSTEM TO PLANT FOR PROCESSING			
Plant Intake (From Plant Meters)	2,191,590	666,976	
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling: Engines: Plant Fuel)	Kerr McGee Oil Ind.		19,951	
	Wilclo Drilling Co.		4,290	
	Westland Drilling Co.		97	
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS			24,338	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JULY, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .284 Recovered GPM .373

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 172	Gas From Sweet Gas Wells " " " "	77,657	2,407,373
3. 57	Gas From Sour Gas Wells " " " "	30,615	949,051
4. Refinery and Storage Vapors	OKLAHOMA TIEOVER	12,431	385,369
5. Gas From Other Sources	TIEOVER FROM ROCK CREEK	93,767	2,906,790
	TOTALS	214,470	6,648,583

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,961	122,798	7. Repressuring		
2. Plant Fuel	2,391	74,127	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	208,118	6,451,658
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	214,470	6,648,583

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	6,451,658

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[9629]

2. Crude Oil			5. Butane		
3. Gasoline (as made)	2,528	78,378	6. Propane		
4. Kerosene			7.		
			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7350	100,000	78,378

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		78,378					
6. Delivered		78,378					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS }
COUNTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of AUGUST, 19 50

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-G Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 9th-1st, 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF JULY RRCT DIST. NO. 10

1482

[9631]

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	2,407,373	961,165	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries from Gathering System		12,114	
GATHERING SYSTEM TO PLANT FOR PROCESSING	2,407,373	949,051	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling: Engines; Plant Fuel)	Kerr McGee Oil Ind.		2,062	
	Wilcio Drilling Co.		9,410	
	Tascosa Gas Co.		642	
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS			12,114	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of AUGUST, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .389

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 219	Gas From Sweet Gas Wells " " " "	158,203	4,904,291
3. 75	Gas From Sour Gas Wells " " " "	52,442	1,625,698
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	8,463	262,339
	TOTALS	219,108	6,792,328

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	2,312	71,662	7. Repressuring		
2. Plant Fuel	2,451	75,971	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	214,345	6,644,695
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	219,018	6,792,328

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	6,644,695

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2. Crude Oil			5. Butane			
3. Gasoline (as made)	2,669	82,736	6. Propane			
4. Kerosene			7.			
			8.			

Section V Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	10-7440	100,000	82,736
TOTALS						

List Tenders in Numerical Order

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		82,736					
6. Delivered		82,736					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS }
COUNTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of SEPTEMBER 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-H Approved this _____ day of _____ 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 10th-1st 19 50 BY _____

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF AUGUST RRCT. DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	4,904,291	1,638,629	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		12,931	
GATHERING SYSTEM TO PLANT FOR PROCESSING		1,625,698	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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[9634]

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED IN Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Wilcio Drilling Co.		12,315	
LEASE USE (Dwellings)	Texcoso Drilling Co.		616	
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTAL			12,931	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT TO be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

9635

Operator PHILLIPS PETROLEUM COMPANY Month of SEPTEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .373

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 223	Gas From Sweet Gas Wells " " " "	164,711	4,941,344
3. 77	Gas From Sour Gas Wells " " " "	55,968	1,679,052
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	6,582	197,449
	TOTALS	227,261	6,817,845

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[96351]

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,611	114,338	7. Repressuring		
2. Plant Fuel	2,226	66,787	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	221,224	6,636,720
5. Gas Lift			11. Vented to Air		
6. Press. Maint.			12. TOTALS	227,261	6,817,845

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	6,636,720

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,785	83,551	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7528	100,000	83,551

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		83,551					
6. Delivered		83,551					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such purchases of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of each as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of OCTOBER, 19 50.

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-I Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 11th-1st 19 50 BY _____

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF SEPTEMBER RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2; Well Meters)	4,941,344	1,696,148	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		17,096	
GATHERING SYSTEM TO PLANT FOR PROCESSING			
Plant Intake (From Plant Meters)		1,679,052	
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Bayou Oil Co.		1,099	
	Tascosa Gas Co.		369	
	Gasoline Transfer Pump		278	
[illegible]	Wilclo Drilling Co.		15,350	
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES -LOSSES				
TOTALS			17,096	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of OCTOBER, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .384

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 222	Gas From Sweet Gas Wells " " " "	160,476	4,974,763
3. 84	Gas From Sour Gas Wells " " " "	72,023	2,232,700
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	10,362	321,208
	TOTALS	242,861	7,528,671

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	6,374	197,584	7. Repressuring		
2. Plant Fuel	2,194	68,004	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	234,293	7,263,083
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	242,861	7,528,671

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	7,263,083

1492

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[9638]

1. Condensate			5. Butane		
2. Crude Oil	3,021	93,661	6. Propane		
3. Gasoline (as made)			7.		
4. Kerosene			8.		

Section V Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del.
			Natural Gasoline	10-7619	100,000	93,661
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		93,661					
6. Delivered		93,661					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of NOVEMBER, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-J Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 12th-1st, 19 50 BY _____

(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS

Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF OCTOBER RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	5,057,209	2,252,330	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	82,446	19,630	
GATHERING SYSTEM TO PLANT FOR PROCESSING	4,974,763	2 232,700	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Bayou Oil Co.		1,833	
	Tascosa Gas Company		533	
	Wilclo Drilling Co.		12,277	
~~LEASE USE (Dwellings)~~	Gasoline Transfer Pump		280	
	Trainer Drilling		4,075	
	P. P. Co.		632	
~~GAS LIFT~~				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES	Shamrock Oil & Gas	82,446		
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		82,446	19,630	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

Form 5481 2-50

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of NOVEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .316

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.		Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	243	Gas From Sweet Gas Wells " " " "	197,215	5,916,442
3.	85	Gas From Sour Gas Wells " " " "	62,679	1,880,370
4.		Refinery and Storage Vapors		
5.		Gas From Other Sources OKLAHOMA SYSTEM	11,370	341,114
		TOTALS	271,264	8,137,926

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	2,732	81,966	7. Repressuring		
2. Plant Fuel	2,193	65,790	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	266,339	7,990,170
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	271,264	8,137,926

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
MICHIGAN-WISCONSIN LINE	KANSAS CITY, MISSOURI	INDUSTRIAL	7,990,170

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	3,048	91,431	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			NATURAL GASOLINE	10-7710	100,000	91,431
TOTALS						

Section VI — Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		91,431					
6. Delivered		91,431					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared _____ G. F. ROBIE _____, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of DECEMBER, 19 50.

HAZEL N. MARTIN
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-K Approved this _____ day of _____ 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 1st- 1st 19 51 BY _____

(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF NOVEMBER RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	6,006,416	1,899,265	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	89,974	18,895	
GATHERING SYSTEM TO PLANT FOR PROCESSING	5,916,442	1,880,370	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips		6,200	
	Tascosa Gas Company		41	
	Wilelo Drilling Co.		9,539	
	Gasoline Transfer Pump		242	
~~LEASE USE (Drilling)~~	Trainer (Drilling)		955	
GAS LIFT	Stanolind (Drilling)		1,918	
REPRESSURING: PRESSURE MAINTENANCE				
	Shamrock Oil & Gas	89,974		
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		89,974	18,895	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

Form 5481 2-50

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of DECEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 180,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .349

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 273	Gas From Sweet Gas Wells " " " "	210,382	6,521,857
3. 88	Gas From Sour Gas Wells " " " "	63,294	1,962,116
4	Refinery and Storage Vapors		
5	Gas From Other Sources OKLAHOMA SYSTEM	8,826	273,611
	TOTALS	282,502	8,757,584

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	6,419	199,000	7. Repressuring		
2. Plant Fuel	2,252	69,823	8. Recycling		
3 Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	273,831	8,488,761
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	282,502	8,757,584

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
MICHIGAN-WISCONSIN LINE	KANSAS CITY, MISSOURI	INDUSTRIAL	8,488,761

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	3,176	98,456	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement — List Tenders in Numerical Order

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			NATURAL GASOLINE	10-7806	250,000	98,456
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		98,456					
6. Delivered		98,456					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared _____ G. F. ROBIE _____, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of such as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of JANUARY, 19 51

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas

Railroad Commission Seal Number 10-46-L Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 2nd-1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF December RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	6,648,758	1,984,693	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	126,901	22,577	
GATHERING SYSTEM TO PLANT FOR PROCESSING	6,521,857	1,962,116	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips		1,879	
	Tascosa Gas Company		2,406	
	Wilcio Drilling Co.		12,671	
~~LEASE USE (Drilling)~~	Gasoline Transfer Pump		278	
	Stanolind (Drilling)		5,343	
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES	Shamrock Oil & Gas	126,901		
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		126,901	22,577	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

Form 5481 2-50

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 360,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .342

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 284	Gas From Sweet Gas Wells " " " "	219,044	6,790,354
3. 87	Gas From Sour Gas Wells " " " "	70,634	2,186,540
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	17,125	530,887
	TOTALS	306,703	9,507,781

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	4,050	125,544	7. Repressuring		
2. Plant Fuel	2,257	69,961	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	300,396	9,312,276
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	306,703	9,507,781

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
MICHIGAN-WISCONSIN LINE	KANSAS CITY, MISSOURI	INDUSTRIAL	9,312,276

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	3,487	108,092	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10-7909	250,000	108,092

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					0
2. Frozen Stock		0					0
3. Total Opening Stock		0					0
4. Received		0					0
5. Produced		108,092					108,092
6. Delivered		108,092					108,092
7. Loss		0					0
8. Total Closing Stock		0					0
9. Frozen Stock		0					0
10. Closing Tenderable Balance		0					0

Signed PHILLIPS PETROLEUM CO. By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of FEBRUARY, 1951

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-A Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 3rd-1st, 19 51 BY _____

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF JANUARY RRCT DIST. NO. 10

1506

[9649]

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	6,855,188	2,205,124	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	64,834	18,584	
GATHERING SYSTEM TO PLANT FOR PROCESSING	6,790,354	2,186,540	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips		660	
	Cree & Hall		535	
	Tascosa Gas Co.		2,043	
[redacted]	Wilcol Drilling Co.		8,120	
	Gasoline Transfer Pump		90	
[redacted]	Stanolind (Drilling)		2,504	
	Sweny (Drilling)		1,281	
[redacted]	Kerr McGee (Drilling)		3,351	
MAINTENANCE				
TRANSMISSION LINES	Shamrock Oil & Gas	64,834		
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		64,834	18,584	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 1951

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 360,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .376

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 287	Gas From Sweet Gas Wells " " " "	243,820	6,826,963
3. 88	Gas From Sour Gas Wells " " " "	94,241	2,638,739
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	19,366	542,255
	TOTALS	357,427	10,007,957

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	4,811	134,705	7. Repressuring		
2. Plant Fuel	2,447	68,520	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	350,169	9,804,732
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	357,427	10,007,957

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Michigan-Wisconsin Line	Kansas City, Missouri	Industrial	9,804,732

9650

1508

[9650]

1. Condensate			5. Butane	
2. Crude Oil			6. Propane	
3. Gasoline (as made)	3,968	111,096	7.	
4. Kerosene			8.	

Section V Tender Operations Statement — ACTUAL RECEIPTS / List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	10-8005	250,000	111,096
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					0
2. Frozen Stock		0					0
3. Total Opening Stock		0					0
4. Received		0					0
5. Produced		111,096					111,096
6. Delivered		111,096					111,096
7. Loss		0					0
8. Total Closing Stock		0					0
9. Frozen Stock		0					0
10. Closing Tenderable Balance		0					0

Signed PHILLIPS PETROLEUM CO. By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
C ~~NTY~~ OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of March, 19 51

Hazel N. Martin
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-B Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 4th - 1st 19 51 BY _____

(Follow Instructions on Reverse Side)

52142-D

[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

[9651]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF FEBRUARY RRCT DIST. NO. 10

1510

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2; Well Meters)	6,798,496	2,654,450	
Gas Received from Other Systems			
Cities Service Oil Co.	28,467		
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		15,711	
GATHERING SYSTEM TO PLANT FOR PROCESSING	6,826,963	2,638,739	
Plant Intake (From Plant Meters			
METER DIFFERENCE (LOSS OR GAIN)			

[96652]

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
Fuel System (Drilling: Engines; Plant Fuel)	Cree & Hall		509	
	Tascosa Gas Company		3,050	
	Wilcol Drilling Co.		6,424	
[redacted]	Gasoline Transfer Pump		95	
	Stanolind (Drilling)		1,401	
[redacted]	Kerr McGee Drilling		4,232	
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS			15,711	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SHERMAN Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 360,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .348

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	300	Gas From Oil Wells (Casinghead) Detail on Form GP-2	258,674	8,018,882
2.	88	Gas From Sweet Gas Wells " " " "	81,209	2,517,471
3.		Gas From Sour Gas Wells " " " "		
4.		Refinery and Storage Vapors		
5.		Gas From Other Sources OKLAHOMA SYSTEM	21,897	678,805
		TOTALS	361,780	11,215,158

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	5,964	184,873	7. Repressuring		
2. Plant Fuel	2,497	77,396	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	353,319	10,952,889
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	361,780	11,215,158

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
MICHIGAN-WISCONSIN LINE	Kansas City, Missouri	Industrial	10,952,889

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[96541]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	4,324	134,038	7.		
4. Kerosene			8.		

Section V **Tender Operations Statement** — ACTUAL RECEIPTS — List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	10-8099	250,000	134,038
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					0
2. Frozen Stock		0					0
3. Total Opening Stock		0					0
4. Received		0					0
5. Produced		134,038					134,038
6. Delivered		134,038					134,038
7. Loss		0					0
8. Total Closing Stock		0					0
9. Frozen Stock		0					0
10. Closing Tenderable Balance		0					0

Signed PHILLIPS PETROLEUM COMPANY By _____ Title GAS SUPERINTENDENT

THE STATE OF TEXAS
JUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared W. S. ETCHIESON known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL, 19 51

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-46-C Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th - 1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT SHERMAN

GAS PROCESSING PLANT REPORT FOR MONTH OF MARCH RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-8; Well Meters)	7,950,307	2,538,635	
Gas Received From Other Systems; Cities Service Oil Co.	68,575		
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		21,164	
GATHERING SYSTEM TO PLANT FOR PROCESSING	8,018,882	2,517,471	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SHEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Cree & Hall		1,131	
	Gasoline Transfer Pump		743	
	Kerr McGee (Drilling)		4,977	
[illegible]	Phillips		3,573	
	Texoma Gas Company		3,084	
[illegible]	Wilcol Drilling Co.		7,656	
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES -LOSSES				
TOTALS			21,164	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. No. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM .638 Recovered GPM .880

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1516

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 411	Gas From Oil Wells (Casinghead) Detail on Form GP-2	8,562	265,434
2. 134	Gas From Sweet Gas Wells " " " "	65,232	2,022,190
3.	Gas From Sour Gas Wells " " " "		
4.	TIEOVER FROM NORTH (CH)	1,991	61,721
5. Gas From Other Sources	DEDUCTION TIEOVER	13,134	407,130
	TOTALS	62,651	1,942,215

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,759	116,538	7. Repressuring		
2. Plant Fuel	2,944	91,273	8. Recycling		
3. Lease Use			9. Carbon Black Plants	3,140	97,340
4. Fuel System	2,716	84,204	10. Transmission Line	48,941	1,517,171
5. Gas Lift			11. Vented to Air	0	0
6. Plt. Fuel to North	1,151	35,689	12. TOTALS	62,651	1,942,215

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Texas Elf Carbon	Pampa	Carbon	97,340
Northern Natural (Grayce)	Skellytown	Industrial	1,516,954
Phillips Petroleum Co.	Pampa	" Water Sta. (Pampa)	417

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	E.496	77,064	7.		
4. Kerosine			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Natural Gasoline		
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-6784	125,000	77,064

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		77,064					
6. Delivered		77,064					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM CO. By /S/ G. F. ROBIE Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such purchases of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of FEBRUARY, 19 50

/S/ JEARLEE HUNSAKER

Notary JEARLEE HUNSAKER HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-A Approved this 23 day of FEBRUARY, 19 50

Void After 7:00 A. M. 3rd-1st, 19__

RAILROAD COMMISSION OF TEXAS
BY /S/ THURMOND CLINE

(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9562 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF JANUARY RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	2,026,454		265,434
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	4,264		
GATHERING SYSTEM TO PLANT FOR PROCESSING			
Plant Intake (From Plant Meters)	2,022,190		265,434
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel				
LEASE USE ([redacted])	PHILLIPS PETROLEUM CO.	4,264		
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES -Losses				
TOTALS		4,264		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT to be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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[9659]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM .638 Recovered GPM .904

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	411	Gas From Oil Wells (Casinghead) Detail on Form GP-2	8,616	241,238
2.	134	Gas From Sweet Gas Wells " " " "	65,738	1,840,650
3.		Gas From Sour Gas Wells " " " "		
4.	~~[illegible]~~	TIEOVER FROM NORTH (CH)	2,774	77,668
5.		Gas From Other Sources DEDUCTION TIEOVER	12,159	340,458
		TOTALS	64,969	1,819,098

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,898	109,134	7. Repressuring		
2. Plant Fuel	3,028	84,778	8. Recycling		
3. Lease Use			9. Carbon Black Plants	3,656	102,368
4. Fuel System	4,839	135,474	10. Transmission Line	48,514	1,358,392
5. Gas Lift			11. Vented to Air	0	0
6. ~~Press. Maint.~~	~~Field to North 1,034~~	~~28,952~~	12. TOTALS	64,969	1,819,098

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Texas Elf Carbon	Pampa	Carbon	102,368
Northern Natural (Grayco)	Skellytown	Industrial	1,358,224
Phillips Petroleum Co.	Pampa	" (Water Sta. (Pampa)	168

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,630	73,637	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Natural Gasoline		
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-6878	125,000	73,637

Section VI — Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		73,637					
6. Delivered		73,637					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBLE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of MARCH, 1950

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-B Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 4th-1st, 19 50 BY _____

(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF FEBRUARY RRCT DIST. NO. 10

1522

[19611]

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,844,198		241,238
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	3,548		
GATHERING SYSTEM TO PLANT FOR PROCESSING	1,840,650		241,238
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling: Engines; Plant Fuel				
LEASE USE (XXXXXXXX)	PHILLIPS PETROLEUM CO.	3,548		
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		3,548		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1.118 Recovered GPM 1.065

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	413	Gas From Oil Wells (Casinghead) Detail on Form GP-2	9,243	286,545
2.	134	Gas From Sweet Gas Wells " " " "	56,900	1,763,887
3.		Gas From Sour Gas Wells " " " "		
4.	[illegible]	TIEOVER FROM NORTH (CH)	2,283	70,785
5.	Gas From Other Sources	DEDUCTION TIEOVER	13,604	421,747
		TOTALS	54,822	1,699,470

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,289	101,956	7. Repressuring		
2. Plant Fuel	2,916	90,393	8. Recycling		
3. Lease Use			9. Carbon Black Plants	3,083	95,573
4. Fuel System	1,863	57,750	10. Transmission Line	42,618	1,321,158
5. Gas Lift			11. Vented to Air	0	0
6. Fld. Mutual to North	1,053	32,640	12. TOTALS	54,822	1,699,470

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Texas Elf Carbon	Pampa	Carbon	95,573
Phillips Natural	Grayco Booster	Industrial	1,321,003
Phillips Petroleum Co.	Pampa	" Water Sta. (Pampa)	155

1524

9662

[9662]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,652	82,227	7.		
4. Kerosene			8.		

Section V Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
List Tenders in Numerical Order			List Tenders in Numerical Order			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline			Natural Gasoline	10-6969	125,000	82,227
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		82,227					
6. Delivered		82,227					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-C Approved this _____ day of _____ 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th-1st 19 50 BY _____

(Follow Instructions on Reverse Side)

53676-D

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

[9663]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF MARCH RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,768,077		286,545
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	4,190		
GATHERING SYSTEM TO PLANT FOR PROCESSING	1,763,887		286,545
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)				
LEASE USE ~~(Heating)~~	Phillips Petroleum Co.	4,190		
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		4,190		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

Form 5481 2-50

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of APRIL, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1.118 Recovered GPM 1.148

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 413	Gas From Oil Wells (Casinghead) Detail on Form GP-2	9,670	290,104
2. 136	Gas From Sweet Gas Wells " " " "	50,549	1,516,460
3.	Gas From Sour Gas Wells " " " "		
4.	TIEOVER FROM NORTH (CH)	2,261	67,840
5. Gas From Other Sources	DEDUCTION TIEOVER	14,544	436,318
	TOTALS	47,936	1,438,086

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	2,876	86,282	7. Repressuring		
2. Plant Fuel	2,834	85,022	8. Recycling		
3. Lease Use			9. Carbon Black Plants	2,413	72,390
4. Fuel System	4,572	137,162	10. Transmission Line	34,043	1,021,290
5. Gas Lift			11. Vented to Air	121	3,630
6. PES. FUEL TO NORTH	1,077	32,310	12. TOTALS	47,936	1,438,086

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
TEXAS ELF CARBON	PAMPA	CARBON	72,390
INDEPENDENT NATURAL GAS CO.	PAMPA	INDUSTRIAL	1,021,170
PHILLIPS PETROLEUM CO.	PAMPA	FUEL	32,310

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[9666]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,468	74,050	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10-7160	125,000	74,050

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		74,050					
6. Delivered		74,050					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of MAY, 1950

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-D Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 6th-1st, 1950 BY _____

(Follow Instructions on Reverse Side)

52143-D

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF APRIL RRCT DIST. NO. 10

1530

[9667]

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,519,592		290,104
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	3,132		
GATHERING SYSTEM TO PLANT FOR PROCESSING			
Plant Intake (From Plant Meters)	1,516,460		
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel	Phillips Pet. Co.	3,132		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		3,132		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MAY, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 80 P.S.I. Avg. Tested GPM 1.118 Recovered GPM 1.285

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	9,602	300,211
2. 139	Gas From Sweet Gas Wells " " " "	47,730	1,479,627
3.	Gas From Sour Gas Wells " " " "		
4. [redacted]	TIEOVER FROM NORTH (CH)	2,224	68,933
5. Gas From Other Sources	DEDUCTION TIEOVER	15,375	476,643
	TOTALS	44,263	1,372,128

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	2,636	82,330	7. Repressuring		
2. Plant Fuel	2,800	86,794	8. Recycling		
3. Lease Use			9. Carbon Black Plants	2,287	70,897
4. Fuel System	3,130	97,024	10. Transmission Line	32,192	997,952
5. Gas Lift			11. Vented to Air	125	3,875
PLT. FUEL TO NORTH	1,073	33,256	12. TOTALS	44,263	1,372,128

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Texas Elf Carbon	Pampa, Texas	Carbon	70,897
Independent Natural Gas Co.	" "	Industrial	997,859
Phillips Petroleum Company	" "	" Water Sta. (Pampa	93

9668

1532

[9668]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,428	75,275	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7160	125,000	75,275

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		75,275					
6. Delivered		75,275					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of JUNE, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-E Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 7th-1st, 1950 BY _____

(Follow Instructions on Reverse Side)

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[9669]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF MAY RRCT DIST. NO. 10

1534

[9670]

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,482,693		300,211
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM	3,066		
Less Deliveries From Gathering System			
GATHERING SYSTEM TO PLANT FOR PROCESSING	1,479,627		300,211
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet. Co.	3,066		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		3,066		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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[9671]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JUNE, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1.118 Recovered GPM 1.052

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	9,428	282,847
2. 138	Gas From Sweet Gas Wells " " " "	50,097	1,502,918
3.	Gas From Sour Gas Wells " " " "		
4. Refinery and Storage Vapors	TIEOVER FROM NORTH (CH)	2,400	72,002
5. Gas From Other Sources	DEDUCTION TIEOVER	17,143	514,269
	TOTALS	44,782	1,343,498

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	2,687	80,619	7. Repressuring		
2. Plant Fuel	2,831	84,940	8. Recycling		
3. Lease Use			9. Carbon Black Plants	2,750	82,500
4. Fuel System	2,915	87,460	10. Transmission Line	32,484	974,520
5. Gas Lift			11. Vented to Air	44	1,320
6. Press. Maint.		32,139	12. TOTALS	44,782	1,343,498
~~Plt. Fuel To North 1,071~~					

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Texas Elf Carbon	Pampa	Carbon	82,500
Independent Natural Gas Co.	Grayco Booster	Industrial	974,430
Phillips Petroleum Company	Pampa	" (Water Sta. (Pampa)	90

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,254	67,624	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7254	125,000	67,624

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		67,624					
6. Delivered		67,624					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of JULY, 1950

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-F Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 8th-1st, 1950 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF JUNE RRCT DIST. NO. 10

1538

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1506041		282847
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	3123		
GATHERING SYSTEM TO PLANT FOR PROCESSING	1502918		282847
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

[9673]

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet. Co.	3123		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		3123		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JULY 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1,118 Recovered GPM 1,148

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	9,239	286,409
2. 137	Gas From Sweet Gas Wells " " " "	48,002	1,488,048
3.	Gas From Sour Gas Wells " " " "		
4. Refinery and Storage Vapors	TIEOVER FROM NORTH (CH)	2,265	70,229
5. Gas From Other Sources	DEDUCTION TIEOVER	16,296	505,195
	TOTALS	43,210	1,339,491

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	2,593	80,378	7. Repressuring		
2. Plant Fuel	2,724	84,439	8. Recycling		
3. Lease Use			9. Carbon Black Plants	2,725	84,475
4. Fuel System	871	26,997	10. Transmission Line	33,194	1,029,014
5. Gas Lift			11. Vented to Air	80	2,480
6. Plt. Fuel to North	1,023	31,708	12. TOTALS	43,210	1,339,491

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	MCF Monthly
Texas Elf Carbon Independent Natural Gas Co. Phillips Petroleum Company	Pampa Greyco Booster Pampa	Carbon Industrial " (Water Sta.) (Pampa)	84,475 1,028,921 93

1540

9674

[9674]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,128	65,969	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			Line Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	10-7345	125,000	65,969
TOTALS						

Section VI — Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		65,969					
6. Delivered		65,969					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS }
COUNTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of August, 19 50

JEARLEE HUTSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-G Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 9th-1st, 19 50 BY _____

(Follow Instructions on Reverse Side)

32142-D

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[9675]

[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF JULY RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

1542

[9676]

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,491,322		286,409
Gas Received from Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries from Gathering System	3,274		
GATHERING SYSTEM OF PLANT FOR PROCESSING			
Plant Intake (Form Plant Meters)	1,488,048		286,409
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet. Co.	3,274		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		3,274		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT TO be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of AUGUST, 1960

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1.118 Recovered GPM 1.163

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	9,127	282,934
2.	138	Gas From Sweet Gas Wells " " " "	47,634	1,476,654
3.		Gas From Sour Gas Wells " " " "		
4.		Refinery and Storage Vapors TIEOVER FROM NORTH (CH)	2,359	73,133
5.		Gas From Other Sources DEDUCTION TIEOVER	15,531	481,453
		TOTALS	43,589	1,351,268

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	2,615	81,067	7. Repressuring		
2. Plant Fuel	2,744	85,066	8. Recycling		
3. Lease Use			9. Carbon Black Plants	2,822	87,482
4. Fuel System	2,265	70,217	10. Transmission Line	32,073	994,263
5. Gas Lift			11. Vented to Air	51	1,581
6. Plt. Mual to North	1,019	31,592	12. TOTALS	43,589	1,351,268

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Texas Elf Carbon	Pampa	Carbon	87,482
Independent Natural Gas Co.	Greyco Booster	Industrial	994,170
Phillips Petroleum Company	Pampa	- (Water Station)	
		- (Pampa)	

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,129	66,010	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7435	125,000	66,010

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		66,010					
6. Delivered		66,010					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS }
CO.TY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he is authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of SEPTEMBER, 1950

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-H Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 10th-1st, 1950 BY _____

(Follow Instructions on Reverse Side)

32142-D

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF AUGUST RRCT DIST. NO. 10

1546

[9679]

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,480,013		282,934
Gas Received from Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries from Gathering System	3,359		
GATHERING SYSTEM TO PLANT FOR PROCESSING	1,476,654		
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet. Co.	3,359		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTAL		3,359		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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[9680]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of SEPTEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1.118 Recovered GPM 1.047

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	8,858	265,739
2. 139	Gas From Sweet Gas Wells " " " "	48,161	1,444,817
3.	Gas From Sour Gas Wells " " " "		
4. Refinery and Storage Vapors	TIEOVER FROM NORTH (CH)	2,589	77,664
5. Gas From Other Sources	DEDUCTION TIEOVER	15,811	474,308
	TOTALS	43,797	1,313,912

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	2,627	78,811	7. Repressuring		
2. Plant Fuel	2,780	83,401	8. Recycling		
3. Lease Use			9. Carbon Black Plants	3,345	100,350
4. Fuel System	1,820	54,600	10. Transmission Line	32,351	970,530
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	43,797	1,313,912
Plt. Fuel to North	874	26,220			

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Texas Elf Carbon	Pampa	Carbon	100,350
Independent Natural Gas Co.	Grayco Booster	Industrial	970,410
Phillips Petroleum Company	Pampa	" (Water Sta.)	

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,124	63,716	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	10-7523	120,000	63,716
TOTALS						

List Tenders in Numerical Order

Section VI — Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		63,716					
6. Delivered		63,716					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of OCTOBER, 1950

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-I Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 11-1st, 1950 BY _____

(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF SEPTEMBER RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2; Well Meters)	1,447,016		265,739
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	2,199		
GATHERING SYSTEM TO PLANT FOR PROCESSING	1,444,817		265,739
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

[9682]

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Petr. Co.	2,199		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES -LOSSES				
TOTALS		2,199		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing; NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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[9683]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of OCTOBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Reprocessing—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1,118 Recovered GPM 1.022

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1. 422	Gas From Oil Wells (Casinghead) Detail on Form GP-1	8,871	275,002
2. 139	Gas From Sweet Gas Wells	50,342	1,560,598
3.	Gas From Sour Gas Wells		
4.	Refinery and Storage Vapors TIEOVER FROM NORTH (CH)	2,726	84,518
5.	Gas From Other Sources DEDUCTION	17,209	533,489
	TOTALS	44,730	1,386,629

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	2,684	83,204	7. Reprocessing		
2. Plant Fuel	2,799	86,769	8. Recycling		
3. Lease Use			9. Carbon Black Plants	2,766	85,746
4. Fuel System	3,373	104,562	10. Transmission Line	32,033	993,023
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint. P16, 1.3p1 To North	1,075	33,336	12. TOTALS	44,730	1,386,629

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Texas Elf Carbon Independent Natural Gas Co. Phillips Petroleum Company	Pampa Grayco Booster Pampa	Carbon Industrial " (Water Station) (Pampa)	85,746 992,930 93

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,162	67,029	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	10-7614	125,000	67,029
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		67,029					
6. Delivered		67,029					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of NOVEMBER, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-J Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 12th-1st 19 50 BY _____

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RAILROAD COMMISSION OF TEXAS

Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF OCTOBER RRCT DIST NO 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,562,598		275,002
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	2,000		
GATHERING SYSTEM TO PLANT FOR PROCESSING	1,560,598		275,002
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet Co.	2,000		
LEASE USE (dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES - LOSSES				
TOTALS		2,000		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of NOVEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1.118 Recovered GPM .837

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	8,423	252,683
2.	150	Gas From Sweet Gas Wells " " " "	62,799	1,883,973
3.		Gas From Sour Gas Wells " " " "		
4.		Refinery and Storage Vapors TIEOVER FROM NORTH (OH)	2,993	89,786
5.		Gas From Other Sources DEDUCTION TIEOVER	20,293	608,779
		TOTALS	53,922	1,617,663

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,235	97,052	7. Repressuring		
2. Plant Fuel	2,832	84,961	8. Recycling		
3. Lease Use			9. Carbon Black Plants	3,57?	107,130
4. Fuel System			10. Transmission Line	40,734	1,222,020
5. Gas Lift			11. Vented to Air	144	4,320
6. Press. Maint.			12. TOTALS	53,922	1,617,663
PSC PUMP TO NORTH	1,079				

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
TEXAS ELF CARBON	PAMPA	CARBON	107,130
INDEPENDENT NATURAL GAS CO.	GRAYCO BOOSTER PAMPA	INDUSTRIAL	1,221,900
PHILLIPS PETROLEUM COMPANY		" (WATER STA.)	

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1. Condensate			5. Butane	
2. Crude Oil			6. Propane	
3. Gasoline (as made)	2,100	63,010	7.	
4. Kerosene			8.	

Section V Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbl. Del'd.
NATURAL GASOLINE	10-7705	125,000	63,010

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		63,010					
6. Delivered		63,010					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared _____ G. F. ROBIE _____, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of DECEMBER, 19 50

HAZEL N. MARTIN

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-K Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 1st-1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OR TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF NOVEMBER RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,885,884		252,683
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	1,911		
GATHERING SYSTEM TO PLANT FOR PROCESSING	1,883,973		252,683
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet. Co.	1,911		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		1,911		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT to be used to show plant residue disposition. Please insert between Forms GP-1 and 2

Form 5481 2-50

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of DECEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field PANHANDLE WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 80,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1.118 Recovered GPM .896

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	8,068	250,110
2.	167	Gas From Sweet Gas Wells " " " "	72,595	2,250,449
3.		Gas From Sour Gas Wells " " " "		
4.		Refinery and Storage Vapors TIEOVER FROM NORTH (CH)	2,912	90,492
5.		Gas From Other Sources DEDUCTION TIEOVER	19,255	596,937
		TOTALS	64,327	1,994,114

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,860	119,660	7. Repressuring		
2. Plant Fuel	2,819	87,382	8. Recycling		
3. Lease Use			9. Carbon Black Plants	4,000	124,000
4. Fuel System	5,137	159,240	10. Transmission Line	47,422	1,470,082
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	64,327	1,994,114

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
TEXAS ELF CARBON	PAMPA	CARBON	124,000
INDEPENDENT NATURAL GAS CO.	GRAYCO BOOSTER	INDUSTRIAL	1,469,896
PHILLIPS PETROLEUM COMPANY	PAMPA	" (WATER STA.)	
		" (PAMPA)	186

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,170	67,256	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10-7801	125,000	67,256

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		67,256					
6. Delivered		67,256					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS }
NTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of JANUARY, 1951.

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-L Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 2nd-1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

52142-D

[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF DECEMBER RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	2,252,489		250,110
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System	2,040		
GATHERING SYSTEM TO PLANT FOR PROCESSING	2,250,449		250,110
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet. Co.	2,040		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		2,040		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

Form 5481 2-50

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 75,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1.118 Recovered GPM .822

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. 422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	8,021	248,648
2. 167	Gas From Sweet Gas Wells - - - -	77,261	2,395,098
3.	Gas From Sour Gas Wells - - - -		
4. [redacted]	TIEOVER FROM NORTH (CH)	2,855	88,503
5 [redacted]	DEDUCTION TIEOVER	27,034	838,065
	TOTALS	61,103	1,894,184

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	3,666	113,643	7 Repressuring		
2. Plant Fuel	2,934	90,952	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System	5,042	156,300	10 Transmission Line	48,265	1,496,215
5. Gas Lift			11 Vented to Air	126	3,906
6. Pres. Maint. [redacted]	1,070	33,168	12. TOTALS	61,103	1,894,184

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Independent Natural Gas Co.	Grayco Booster	Industrial	1,496,029
Phillips Petroleum Company	Pampa	"(Water Sta.)	186
		" (Pampa)	

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,096	64,973	7.		
4. Kerosene			8.		

Section V **Tender Operations Statement**

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7903	125,000	64,973
TOTALS			

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					0
2. Frozen Stock		0					0
3. Total Opening Stock		0					0
4. Received		0					0
5. Produced		64,973					64,973
6. Delivered		64,973					64,973
7. Loss		0					0
8. Total Closing Stock		0					0
9. Frozen Stock		0					0
10. Closing Tenderable Balance		0					0

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINSER

THE STATE OF TEXAS }
COUNTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of February, 19 51

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas

Railroad Commission Seal Number 10-52-A Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. March 1, 19 51 BY _____

(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF JANUARY RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (From GP-2 Well Meters)	2,396,854		248,648
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM	1,756		248,648
Less Deliveries From Gathering System			
GATHERING SYSTEM TO PLANT FOR PROCESSING	2,395,098		
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet. Co.	1,756		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES - LOSSES				
TOTALS		1,756		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 75,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM 1.118 Recovered GPM .886

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	7,934	222,155
2.	168	Gas From Sweet Gas Wells " " " "	88,664	2,482,595
3.		Gas From Sour Gas Wells " " " "		
4.		Refinery and Storage Vapors TIEOVER FROM NORTH (CH)	2,879	80,625
5.		Gas From Other Sources DEDUCTION TIEOVER	38,059	1,065,652
		TOTALS	61,418	1,719,723

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,685	103,185	7. Repressuring		
2. Plant Fuel	2,895	81,065	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System	3,670	102,765	10. Transmission Line	49,866	1,396,248
5. Gas Lift			11. Vented to Air	179	5,012
6. Press. Maint.		31,448	12. TOTALS	61,418	1,719,723

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Plant Fuel to North	1,123		
Independent Natural Gas Co.	Grayco Booster	Industrial	1,396,108
Phillips Petroleum Company	Pampa	" (Water Sta.)(Pampa)	140

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,208	61,812	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-8000	125,000	61,812

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					0
2. Frozen Stock		0					0
3. Total Opening Stock		0					0
4. Received		0					0
5. Produced		61,812					61,812
6. Delivered		61,812					61,812
7. Loss		0					0
8. Total Closing Stock		0					0
9. Frozen Stock		0					0
10. Closing Tenderable Balance		0					0

Signed PHILLIPS PETROLEUM CO. By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS }
{ JNTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of March, 1951.

HAZEL N. MARTIN

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-B Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 4th - 1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF FEBRUARY RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	2,484,202		
Gas Received from Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries from Gathering System	1,607		
GATHERING SYSTEM TO PLANT FOR PROCESSING	2,482,595		
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet. Co.	1,607		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		1,607		

NOTE: This form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

8696

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name GRAY Field WEST County GRAY

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 75,000

Avg. Intake Pressure 60 P.S.I. Avg. Tested GPM .876 Recovered GPM 1.011

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

1572

[8696]

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	422	Gas From Oil Wells (Casinghead) Detail on Form GP-2	8,322	257,992
2.	168	Gas From Sweet Gas Wells " " " "	79,311	2,458,655
3.		Gas From Sour Gas Wells " " " "		
4.		Refinery and Storage Vapors TIEOVER FROM NORTH (CH)	2,885	89,427
5.		Gas From Other Sources DEDUCTION TIEOVER	39,178	1,214,513
		TOTALS	51,340	1,591,561

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,260	101,065	7. Repressuring		
2. Plant Fuel	2,920	90,526	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System	3,716	115,201	10. Transmission Line	40,469	1,254,539
5. Gas Lift			11. Vented to Air	0	0
6. PLT. FUEL TO NORTH	975	30,230	12. TOTALS	51,340	1,591,561

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
TEXAS ELF CARBON	PAMPA	CARBON	0
INDEPENDENT NATURAL GAS CO.	GRAYCO BOOSTER	INDUSTRIAL	1,254,477
PHILLIPS PETROLEUM COMPANY	PAMPA	" (WATER STATION)	62
		" (PAMPA)	

2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,324	72,045	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement — ACTUAL RECEIPTS / List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			NATURAL GASOLINE	10-8094	125,000	72,045
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					0
2. Frozen Stock		0					0
3. Total Opening Stock		0					0
4. Received		0					0
5. Produced		72,045					72,045
6. Delivered		72,045					72,045
7. Loss		0					0
8. Total Closing Stock		0					0
9. Frozen Stock		0					0
10. Closing Tenderable Balance		0					0

Signed PHILLIPS PETROLEUM CO. By _____ Title GAS SUPERINTENDENT

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared W. S. ETCHIESON, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL, 1951

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-52-C Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th - 1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT GRAY

GAS PROCESSING PLANT REPORT FOR MONTH OF MARCH RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2; Well Meters)	2,460,371		
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries from Gathering Syste	1,716		
GATHERING SYSTEM TO PLANT FOR PROCESSING	2,458,655		
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Phillips Pet. Co.	1,716		
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING; PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS		1,716		

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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[97011] Exhibit No. 176

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Av. Intake Pressure 350 P.S.I. Avg. Tested GPM .256 Recovered GPM .386

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	31,977	991,291
3. 5	Gas From Sour Gas Wells " " " "	1,664	51,580
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources	61,739	1,913,914
	TOTALS	95,380	2,956,785

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	3,354	103,979	7. Repressuring		
2. Plant Fuel	2,179	67,549	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	89,847	2,785,257
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	95,380	2,956,785

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,785,257

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	1,926	59,704	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Natural Gasoline		
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-6782	111.000	59,704

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		59,704					
6. Delivered		59,704					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By /s/ G. F. ROBIE Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of FEBRUARY, 19 50.

/s/ JEARLEE HUNSAKER
Notary Public in and for JEARLEE HUNSAKER HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-A Approved this 23 day of FEBRUARY, 19 50

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 3rd-1st, 19 50 BY /s/ THURMOND CLINE

(Follow Instructions on Reverse Side)

53676-D

[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Average Intake Pressure 350 P.S.I. Avg. Tested GPM .256 Recovered GPM .444

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	27,698	775,551
3. 5	Gas From Sour Gas Wells " " " "	1,295	36,267
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	58,749	1,644,965
	TOTALS	87,742	2,456,783

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	2,126	59,531	7. Repressuring		
2. Plant Fuel	2,147	60,120	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	83,469	2,337,132
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	87,742	2,456,783

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,337,132

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

[9704]

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1. Condensate			5. Butane	
2. Crude Oil			6. Propane	
3. Gasoline (as made)	1,974	55,282	7.	
4. Kerosene			8.	

Section V — Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Deld.
Natural Gasoline			Natural Gasoline	10-6876	111,000	55,282
TOTALS						

List Tenders in Numerical Order

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		55,282					
6. Delivered		55,282					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY Title SENIOR ENGINEER

THE STATE OF TEXAS
CO TY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such gasoline, crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission, Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of MARCH 19 50

JEARLER HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-B Approved this day of 19

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 4th-1st 19 50 BY

(Follow Instructions on Reverse Side)

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[9705]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Average Intake Pressure 350 P.S.I. Avg. Tested GPM .256 Recovered GPM .463

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	30,890	957,594
3. 5	Gas From Sour Gas Wells " " " "	1,525	47,283
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	57,056	1,768,728
	TOTALS	89,471	2,773,605

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	2,250	69,752	7. Repressuring		
2. Plant Fuel	2,045	63,397	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	85,176	2,640,456
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	89,471	2,773,605

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,640,456

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[9706]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,065	64,017	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Natural Gasoline		
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-6967	111,000	64,017

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		64,017					
6. Delivered		64,017					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS }
COUNTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of each as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL, 19 50

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-C Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th-1st, 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of APRIL, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

A. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .373

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — **INTAKE VOLUME**

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
84	2. Gas From Sweet Gas Wells	36,285	1,088,560
5	3. Gas From Sour Gas Wells	1,904	57,106
	4. Refinery and Storage Vapors		
	5. Gas From Other Sources OKLAHOMA SYSTEM	46,922	1,407,655
	TOTALS	85,111	2,553,321

Section II — **DISPOSITION OF RESIDUE GAS**

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	935	28,046	7. Repressuring		
2. Plant Fuel	935	28,045	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	83,241	2,497,230
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	85,111	2,553,321

Section III — **DETAIL OF SALE OF RESIDUE GAS**

Name of Purchaser	Address	Used for	M.C.F. Monthly
PANHANDLE EASTERN PIPELINE	KANSAS CITY, MISSOURI	INDUSTRIAL	2,497,230

	Bbls. Daily	Bbls. Monthly		Bbls. Daily	Bbls. Monthly
1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	1,966	58,994	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			NATURAL GASOLINE	10-7158	111,000	58,994
TOTALS						

List Tenders in Numerical Order

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		58,994					
6. Delivered		58,994					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COU Y OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared _____ G. F. ROBIE _____, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of MAY, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-D Approved this _____ day of _____, 19 ____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 6th-1st, 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev 7-1-48

RRCT DIST. NO 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

9709

Operator PHILLIPS PETROLEUM COMPANY Month of MAY 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .367

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

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[9709]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	36,013	1,116,417
3. 5	Gas From Sour Gas Wells " " " "	1,860	57,671
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	48,770	1,511,879
	TOTALS	86,643	2,685,967

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	1,440	44,651	7 Repressuring		
2. Plant Fuel	1,640	50,851	8 Recycling		
3. Lease Use			9 Carbon Black Plants		
4. Fuel System			10 Transmission Line	83,563	2,590,463
5. Gas Lift			11 Vented to Air	0	0
6. Press. Maint.			12 TOTALS	86,643	2,685,967

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,590,463

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1. Condensate			5. Butane			
2. Crude Oil			6. Propane			
3. Gasoline (as made)	1,937	60,054	7.			
4. Kerosine			8.			

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7158	111,000	60,054

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		60,054					
6. Delivered		60,054					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or possessed during the reporting period.

Subscribed and sworn to before me this 14th day of JUNE, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-E Approved this _____ day of _____, 19 _____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 7th-1st, 19 50 By _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JUNE, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Av. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .346

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	35,562	1,066,855
3. 5	Gas From Sour Gas Wells " " " "	1,774	53,230
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	50,227	1,506,818
	TOTALS	87,563	2,626,903

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	2,380	71,406	7. Repressuring		
2. Plant Fuel	1,546	46,387	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	83,637	2,509,110
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	87,563	2,626,903

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,509,110

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	1,896	56,894	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	10-7252	111,000	56,894
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		56,894					
5. Produced		56,894					
6. Delivered		0					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared _____ G. F. ROBIE _____, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath swore that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further swore that they are entitled to tender for shipment the amount of such as shown, on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of JULY, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-F Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 8th-1st, 19 50 BY _____
(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST NO 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JULY, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .380

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	29,723	921,410
3. 5	Gas From Sour Gas Wells " " " "	1,727	53,532
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	56,921	1,764,543
	TOTALS	88,371	2,739,485

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	1,753	54,335	7. Repressuring		
2. Plant Fuel	1,609	49,871	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	85,009	2,635,279
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	88,371	2,739,485

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,635,279

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[9714]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	1,758	54,493	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No	Amt. of Tender	Bbls Del'd
Natural Gasoline	10-7343	111,000	54,493

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		54,493					
6. Delivered		54,493					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10 Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
CC. TY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBLE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of AUGUST, 19 50

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-G Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 9th-1st 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of AUGUST, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .402

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	49,934	1,547,950
3. 5	Gas From Sour Gas Wells " " " "	2,257	69,957
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	34,836	1,079,915
	TOTALS	87,027	2,697,822

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	1,577	48,880	7. Repressuring		
2. Plant Fuel	1,715	53,157	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	83,735	2,595,785
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	87,027	2,697,822

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,595,785

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[9715]

2. Crude Oil			5. Butane		
3. Gasoline (as made)	1,777	55,091	6. Propane		
4. Kerosene			7.		
			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7433	111,000	55,091

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		55,091					
6. Delivered		55,091					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
CO. .TY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of SEPTEMBER, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-H Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 10th-1st 19 50 BY _____

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT HANSFORD

GAS PROCESSING PLANT REPORT FOR MONTH OF AUGUST RRCT DIST. NO. 10

1592

[9717]

GATHERING SYSTEM SUMMARY	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,547,950	79,373	
Gas Received from Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries from Gathering System		9,416	
GATHERING SYSTEM TO PLANT PROCESSING	1,547,950	69,957	
Plant Intake (From Plant Meters)			
METER DIFFERENCE (LOSS OR GAIN)			

DISPOSITION OF GAS

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Tescoss Drilling		9,416	
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES-LOSSES				
TOTALS			9,416	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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[9718]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of SEPTEMBER, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .382

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	46,639	1,399,156
3. 5	Gas From Sour Gas Wells " " " "	1,109	33,275
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	38,996	1,169,886
	TOTALS	86,744	2,602,317

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	1,278	38,340	7. Repressuring		
2. Plant Fuel	1,996	59,877	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	83,470	2,504,100
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	86,744	2,602,317

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,504,100

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	1,837	55,123	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	10-7521	111,000	55,123
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		55,123					
6. Delivered		55,123					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on each oath states that he is authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of OCTOBER, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-I Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 11-1st 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

COMPANY PHILLIPS PETROLEUM COMPANY NAME OF PLANT HANSFORD

GAS PROCESSING PLANT REPORT FOR MONTH OF SEPTEMBER RRCT DIST. NO. 10

GATHERING SYSTEM SUMMARY

	SWEET	SOUR	CASINGHEAD
GROSS PRODUCTION (Form GP-2: Well Meters)	1,399,156	41,706	
Gas Received From Other Systems:			
TOTAL GAS INTO GATHERING SYSTEM			
Less Deliveries From Gathering System		8,431	
GATHERING SYSTEM TO PLANT FOR PROCESSING			
Plant Intake (From Plant Meters)		33,275	
METER DIFFERENCE (LOSS OR GAIN)			

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DISPOSITION OF GAS
DELIVERIES FROM GATHERING SYSTEM
(Gas NOT PROCESSED in Plant)

	NAME OF PURCHASER OR USER	SWEET	SOUR	CASINGHEAD
FUEL SYSTEM (Drilling; Engines; Plant Fuel)	Tascosa Gas Co.		8,431	
LEASE USE (Dwellings)				
GAS LIFT				
REPRESSURING: PRESSURE MAINTENANCE				
TRANSMISSION LINES				
CARBON BLACK PLANTS				
OTHER GATHERING SYSTEMS (To Other Plants)				
VENTED & LINE LOSSES				
METER DIFFERENCES - LOSSES				
TOTALS			8,431	

NOTE: This Form to be used to show disposition of Gas Production reported on Form GP-2 (or total intake to gathering system) where a part of the gas taken into the gathering system is not delivered to the plant for processing. NOT To be used to show plant residue disposition. Please insert between Forms GP-1 and 2

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of OCTOBER, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Av. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .388

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	32,143	996,419
3. 5	Gas From Sour Gas Wells " " " "	1,177	36,485
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	54,787	1,698,394
	TOTALS	88,107	2,731,298

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	1,535	47,576	7. Repressuring		
2. Plant Fuel	2,993	61,773	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	84,579	2,621,949
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	88,107	2,731,298

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,621,949

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)			7.		
4. Kerosene	1,972	61,141	8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7612	111,000	61,141

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		61,141					
6. Delivered		61,141					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of each as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of NOVEMBER, 1950

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-J Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 12th-1st, 1950 BY _____

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of NOVEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Avg. Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .342

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells	39,697	1,190,905
3. 5	Gas From Sour Gas Wells	1,513	45,397
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	47,669	1,430,059
	TOTALS	88,879	2,666,343

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	2,710	81,286	7. Repressuring		
2. Plant Fuel	2,071	62,117	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	84,098	2,522,940
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	88,879	2,666,343

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	2,522,940

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[This page is identical to Record page 9582 which appears at pages 1426-1427 of this volume and therefor is not reprinted.]

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[97241]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	1,823	54,701	7		
4. Kerosene			8		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10-7703	111,000	54,701

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1 Opening Tender Balance		0					
2 Frozen Stock		0					
3. Total Opening Stock		0					
4 Received		0					
5 Produced		54,701					
6 Delivered		54,701					
7. Loss		0					
8 Total Closing Stock		0					
9 Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM CO. By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of DECEMBER, 1950.

HAZEL N. MARTIN

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-K Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 1st - 1st, 19 51 BY _____

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of DECEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Reprocessing—etc.) Daily Average Intake Capacity of Plant 134,000

Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .387

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Total MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
84	2. Gas From Sweet Gas Wells " " " "	36,143	1,120,431
5	3. Gas From Sour Gas Wells " " " "	921	28,537
	4. Refinery and Storage Vapors		
	5. Gas From Other Sources OKLAHOMA SYSTEM	53,801	1,667,845
	TOTALS	90,865	2,816,813

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Total MCF		Daily Average MCF	Monthly Total MCF
1. Extraction Loss	2,267	70,275	7. Reprocessing		
2. Plant Fuel	1,995	61,845	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	86,603	2,684,693
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	90,865	2,816,813

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
PANHANDLE EASTERN PIPELINE	KANSAS CITY, MISSOURI	INDUSTRIAL	2,684,693

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1. Condensate			5. Butane	
2. Crude Oil			6. Propane	
3. Gasoline (as made)	1,962	60,816	7.	
4. Kerosene			8.	

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10-7799	111,000	60,816

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					
2. Frozen Stock		0					
3. Total Opening Stock		0					
4. Received		0					
5. Produced		60,816					
6. Delivered		60,816					
7. Loss		0					
8. Total Closing Stock		0					
9. Frozen Stock		0					
10. Closing Tenderable Balance		0					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared O. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath swore that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such gasoline or crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the gallonage of crude as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of JANUARY, 19__.

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-L Approved this _____ day of _____, 19__.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 2nd-1st 19 51 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 1951

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 154,000

Avg Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .371

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1	84	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2		Gas From Sweet Gas Wells " " " "	41,075	1,273,337
3	5	Gas From Sour Gas Wells " " " "	1,797	55,694
4		Refinery and Storage Vapors		
5		Gas From Other Sources OKLAHOMA SYSTEM	64,095	1,986,955
		TOTALS	106,967	3,315,986

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1 Extraction Loss	2,982	92,447	7. Repressuring		
2 Plant Fuel	1,974	61,198	8 Recycling		
3 Lease Use			9. Carbon Black Plants		
4 Fuel System			10. Transmission Line	102,011	3,162,341
5 Gas Lift			11 Vented to Air	0	0
6 Press Maint			12 TOTALS	106,967	3,315,986

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	3,162,341

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[This page is identical to Record page 9682 which appears at pages 1426-1427 of this volume, and therefor is not reprinted.]

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2 Crude Oil			5	
3 Gasoline (as made)	2,204	68,315	6. Propane	
4. Kerosene			7	
			8	

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7901	111,000	68,315

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1 Opening Tender Balance		0					0
2 Frozen Stock		0					0
3 Total Opening Stock		0					0
4 Received		0					0
5 Produced		68,315					68,315
6. Delivered		68,315					68,315
7 Loss		0					0
8 Total Closing Stock		0					0
9 Frozen Stock		0					0
10 Closing Tenderable Balance		0					0

Signed PHILLIPS PETROLEUM COMPANY By ..... Title SENIOR ENGINEER

THE STATE OF TEXAS
CC TY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared .....
G. F. ROBIE
..... known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of February 19 51

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-A Approved this ..... day of ..... 19 ....

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. March 1, 19 51 BY .....

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Average Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .331

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2. 84	Gas From Sweet Gas Wells " " " "	39,657	1,110,388
3. 5	Gas From Sour Gas Wells " " " "	2,214	62,000
4.	Refinery and Storage Vapors		
5.	Gas From Other Sources OKLAHOMA SYSTEM	70,773	1,981,636
	TOTALS	112,644	3,154,024

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	2,756	77,164	7. Repressuring		
2. Plant Fuel	2,176	60,924	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	107,712	3,015,936
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	112,644	3,154,024

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	3,015,936

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,338	65,457	7.		
4. Kerosene			8.		

Section V **Tender Operations Statement**

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt of Tender	Bbls. Del'd.
			Natural Gasoline	10-7998	111,000	65,457
TOTALS						

List Tenders in Numerical Order

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					0
2. Frozen Stock		0					0
3. Total Opening Stock		0					0
4. Received		0					0
5. Produced		65,457					65,457
6. Delivered		65,457					65,457
7. Loss		0					0
8. Total Closing Stock		0					0
9. Frozen Stock		0					0
10. Closing Tenderable Balance		0					0

Signed PHILLIPS PETROLEUM CO. By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of March, 1951

HAZEL N. MARTIN

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-B Approved this _____ day of _____, 19____

Void After 7:00 A. M. 4th - 1st, 19 51

RAILROAD COMMISSION OF TEXAS

BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name HANSFORD Field HUGOTON County HANSFORD

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 134,000

Intake Pressure 350 P.S.I. Avg. Tested GPM .248 Recovered GPM .281

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

	Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.		Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	84	Gas From Sweet Gas Wells " " " "	36,162	1,121,016
3.	5	Gas From Sour Gas Wells " " " "	1,745	54,103
4.		Refinery and Storage Vapors		
5.		Gas From Other Sources OKLAHOMA SYSTEM	74,534	2,310,569
		TOTALS	112,441	3,485,688

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	2,676	82,973	7. Repressuring		
2. Plant Fuel	1,817	56,327	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	107,948	3,346,388
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	112,441	3,485,688

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	3,346,388

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	2,275	70,525	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-8092	111,000	69,537

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		0					0
2. Frozen Stock		0					0
3. Total Opening Stock		0					0
4. Received		0					0
5. Produced		69,537					69,537
6. Delivered		69,537					69,537
7. Loss		0					0
8. Total Closing Stock		0					0
9. Frozen Stock		0					0
10. Closing Tenderable Balance		0					0

Signed PHILLIPS PETROLEUM COMPANY By _____ Title GAS SUPERINTENDENT

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared W. S. ETCHIESON, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of crude as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL, 19 51

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-56-C Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th - 1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

At Intake Pressure 175-500 P.S.I. Avg. Tested GPM .290 Recovered GPM .465

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	TIEOVER FROM ROCK CREEK	65,105	2,018,262
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	149,839	4,645,000
	TOTALS	214,944	6,663,262

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,233	193,221	7. Repressuring		
2. Plant Fuel	3,090	95,790	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	205,621	6,374,251
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12 TOTALS	214,944	6,663,262

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	6,374,251

2. Crude Oil			6. Propane		
3. Gasoline (as made)	3,841	100,485	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement — ACTUAL RECEIPTS / ACTUAL DELIVERIES — List Tenders in Numerical Order

Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline			Natural Gasoline	10-6781	112,000	100,283
TOTALS						

Section VI — Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,873					
2. Frozen Stock		0					
3. Total Opening Stock		1,873					
4. Received		0					
5. Produced		100,485					
6. Delivered		100,283					
7. Loss		0					
8. Total Closing Stock		2,075					
9. Frozen Stock		0					
10. Closing Tenderable Balance		2,075					

Signed PHILLIPS PETROLEUM COMPANY By /s/ G. F. ROBIE Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he is duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such purchases of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown, on this report, and that no crude oil over the production to which tion to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of FEBRUARY 19 50

/s/ JEARLEE HUNSAKER
Notary Public in and for JEARLEE HUNSAKER HUTCHINSON County, Texas

Railroad Commission Seal Number 10-78-A Approved this 23 day of FEBRUARY 19 50

Void After 7:00 A. M. 3rd-1st 19 50 RAILROAD COMMISSION OF TEXAS BY /s/ Thurmond Cline

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 19 50

(Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

A. Intake Pressure 175-500 P.S.I. Avg. Tested GPM .290 Recovered GPM .443

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	TIEOVER FROM ROCK CREEK	64,856	1,815,969
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	153,070	4,285,947
	TOTALS	217,926	6,101,916

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,320	176,954	7. Repressuring		
2. Plant Fuel	3,351	93,822	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	208,255	5,831,140
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	217,926	6,101,916

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	5,831,140

1. Condensate			6. Propane		
2. Crude Oil			7.		
3. Gasoline (as made)	3,556	99,556	8.		
4. Kerosene					

Section V — Tender Operations Statement — List Tenders in Numerical Order

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline			Natural Gasoline	10-6875	125,000	100,257
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		2,075					
2. Frozen Stock		0					
3. Total Opening Stock		2,075					
4. Received		0					
5. Produced		99,556					
6. Delivered		100,257					
7. Loss		0					
8. Total Closing Stock		1,374					
9. Frozen Stock		0					
10. Closing Tenderable Balance		1,374					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

T STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of March, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-B Approved this _____ day of _____, 19__

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 4th-1st, 19 50 BY _____
(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev 7-1-46

RRCT DIST. NO 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

A. Intake Pressure 175-500 P.S.I. Avg. Tested GPM .3099 Recovered GPM .448

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4	TIEOVER FROM ROCK CREEK	65,571	2,032,688
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	156,257	4,843,976
	TOTALS	221,828	6,876,664

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1 Extraction Loss	6,433	199,421	7 Repressuring		
2. Plant Fuel	3,444	106,762	8. Recycling		
3 Lease Use			9. Carbon Black Plants		
4 Fuel System			10. Transmission Line	211,951	6,370,481
5 Gas Lift			11. Vented to Air	0	0
6 Press Maint			12 TOTALS	221,828	6,876,664

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	MCF Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	6,370,481

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	3,777	117,102	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Natural Gasoline		
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd
Natural Gasoline	10-6966	125,000	116,774

Section VI — Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,374					
2. Frozen Stock		0					
3. Total Opening Stock		1,374					
4. Received		0					
5. Produced		117,102					
6. Delivered		116,774					
7. Loss		0					
8. Total Closing Stock		1,702					
9. Frozen Stock		0					
10. Closing Tenderable Balance		1,702					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINNER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on each states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL, 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-C Approved this _____ day of _____ 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th-1st, 19 50 BY _____

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[9739]

RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of APRIL 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

A. Intake Pressure 175-500 P.S.I. Avg. Tested GPM .3099 Recovered GPM .426

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	~~Residue Gas Repressuring~~ TIEOVER FROM ROCK CREEK	66,024	1,980,725
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	159,870	4,796,037
	TOTALS	225,894	6,776,812

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,551	196,526	7. Repressuring		
2. Plant Fuel	3,598	107,936	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	215,745	6,472,350
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	225,894	6,776,812

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
PANHANDLE EASTERN PIPELINE	KANSAS CITY, MISSOURI	INDUSTRIAL	6,472,350

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1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	4,090	122,696	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10-7157	160,000	123,346

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,702					
2. Frozen Stock		0					
3. Total Opening Stock		1,702					
4. Received		0					
5. Produced		122,696					
6. Delivered		123,346					
7. Loss		0					
8. Total Closing Stock		1,052					
9. Frozen Stock		0					
10. Closing Tenderable Balance		1,052					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of MAY, 1950.

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-D Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 6th-1st, 1950 BY _____

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MAY, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

1. Intake Pressure 175-500 P.S.I. Avg. Tested GPM .3099 Recovered GPM .437

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	TIEOVER FROM ROCK CREEK	65,484	2,041,299
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	152,306	4,721,481
	TOTALS	218,154	6,762,780

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,326	196,109	7. Repressuring		
2. Plant Fuel	3,438	106,581	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	208,390	6,460,090
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	218,154	6,762,780

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	6,460,090

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1. Condensate		
2. Crude Oil		
3. Gasoline (as made)	3,076	113,948
4. Kerosene		
6. Propane		
7.		
8.		

Section V — Tender Operations Statement — ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order — ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7157	160,000	113,245

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,052					
2. Frozen Stock		0					
3. Total Opening Stock		1,052					
4. Received		0					
5. Produced		113,948					
6. Delivered		113,245					
7. Loss		0					
8. Total Closing Stock		1,755					
9. Frozen Stock		0					
10. Closing Tenderable Balance		1,755					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of JUNE 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-E Approved this _____ day of _____ 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 7th-1st 19 50 BY _____

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JUNE, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

Intake Pressure 175-500 P.S.I. Avg. Tested GPM .3099 Recovered GPM .478

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	TIEOVER FROM ROCK CREEK	65,193	1,955,783
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	149,976	4,499,283
	TOTALS	215,169	6,455,066

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,240	187,196	7. Repressuring		
2. Plant Fuel	3,170	95,100	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	205,759	6,172,770
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	215,169	6,455,066

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	6,506,790

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[9744]

1. Condensate			5. Butane			
2. Crude Oil			6. Propane			
3. Gasoline (as made)	3,610	108,299	7.			
4. Kerosene			8.			

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

Line Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls Del'd.
Natural Gasoline	10-7251	160,000	108,271

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,755					
2. Frozen Stock		0					
3. Total Opening Stock		1,755					
4. Received		0					
5. Produced		108,299					
6. Delivered		108,271					
7. Loss		0					
8. Total Closing Stock		1,783					
9. Frozen Stock		0					
10. Closing Tenderable Balance		1,783					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS }
COUNTY OF HUTCHINSON }

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of JULY, 19 50

Notary Public in and for _____ County, Texas.

Railroad Commission Seal Number 10-78-F Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 8th-1st, 19 50 BY _____

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JULY, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

Intake Pressure 175,500 P.S.I. Avg. Tested GPM .3099 Recovered GPM .485

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	TIEOVER FROM ROCK CREEK	64,816	2,009,299
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	146,849	4,552,322
	TOTALS	211,665	6,561,621

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,138	190,281	7. Repressuring		
2. Plant Fuel	3,143	97,436	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	202,384	6,273,904
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	211,665	6,561,621

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	6,273,904

9745

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[9745]

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	3,443	106,723	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS			List Tenders in Numerical Order ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
			Natural Gasoline	10-7342	160,000	106,719
TOTALS						

Section VI — Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,783					
2. Frozen Stock		0					
3. Total Opening Stock		1,783					
4. Received		0					
5. Produced		106,723					
6. Delivered		106,719					
7. Loss		0					
8. Total Closing Stock		1,787					
9. Frozen Stock		0					
10. Closing Tenderable Balance		1,787					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

T. STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of AUGUST 19 50

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-G Approved this _____ day of _____ 19____

RAILROAD COMMISSION OF TEXAS

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev 7-1-46

RRCT DIST NO 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of AUGUST, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

Intake Pressure 175-500 P.S.I. Avg. Tested GPM .3099 Recovered GPM .454

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	TIEOVER FROM ROCK CREEK	65,428	2,028,278
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	153,795	4,767,660
	TOTALS	219,223	6,795,938

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	6,357	197,079	7. Repressuring		
2. Plant Fuel	3,219	99,802	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	209,647	6,499,057
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	219,223	6,795,938

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	6,499,057

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1. Condensate			5. Butane			
2. Crude Oil			6. Propane			
3. Gasoline (as made)	3,472	107,659	7.			
4. Kerosene			8.			

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd
Natural Gasoline	10-7432	160,000	107,585

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,787					
2. Frozen Stock		0					
3. Total Opening Stock		1,787					
4. Received		0					
5. Produced		107,659					
6. Delivered		107,585					
7. Loss		0					
8. Total Closing Stock		1,861					
9. Frozen Stock		0					
10. Closing Tenderable Balance		1,861					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of SEPTEMBER, 19 50

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-H Approved this _____ day of _____, 19 ____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 10th-1st 19 50 BY _____

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of SEPTEMBER, 19 50

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Reprocessing—etc.) Daily Average Intake Capacity of Plant 260,000

Intake Pressure 175-500 P.S.I. Avg. Tested GPM .3099 Recovered GPM .496

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

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[9749]

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1. ____	Gas From Oil Wells (Casinghead) Detail on Form GP-1		
2. ____	Gas From Sweet Gas Wells " " " "		
3. ____	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors TIEOVER FROM ROCK CREEK	65,834	1,975,015
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	154,808	4,644,253
	TOTALS	220,642	6,619,268

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	6,398	191,944	7. Repressuring		
2. Plant Fuel	3,301	99,034	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	210,943	632,290
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	220,642	6,619,268

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	6,328,290

1. Condensate			5. Butane		
2. Crude Oil	3,657	109,715	6. Propane		
3. Gasoline (as made)			7.		
4. Kerosene			8.		

Section V Tender Operations Statement

ACTUAL RECEIPTS			ACTUAL DELIVERIES			
Commodity	Tender No.	Bbls. Received	Commodity	Tender No.	Amt. of Tender	Bbls. Dlvd.
			Natural Gasoline	10-7520	160,000	110,057
TOTALS						

List Tenders in Numerical Order

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,861					
2. Frozen Stock		0					
3. Total Opening Stock		1,861					
4. Received		0					
5. Produced		109,715					
6. Delivered		110,057					
7. Loss		0					
8. Total Closing Stock		1,519					
9. Frozen Stock		0					
10. Closing Tenderable Balance		1,519					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such purchases of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of crude as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of OCTOBER, 19 50

JEARLEE HINSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-I Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Valid After 7:00 A. M. 11th-1st, 19 50 BY _____

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of OCTOBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

Intake Pressure 175-500 P.S.I. Avg. Tested GPM .328 Recovered GPM .457

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4. Refinery and Storage Vapors	TIEOVER FROM R. C.	66,265	2,054,204
5. Gas From Other Sources	PANHANDLE EASTERN PIPELINE	156,443	4,849,738
	TOTALS	222,708	6,903,942

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	7,349	227,816	7. Repressuring		
2. Plant Fuel	3,313	102,700	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	212,046	6,573,426
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	222,708	6,903,942

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	6,573,426

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	3,665	113,609	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
Natural Gasoline	10-7611	160,000	113,087

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,519					
2. Frozen Stock		0					
3. Total Opening Stock		1,519					
4. Received		0					
5. Produced		113,609					
6. Delivered		113,087					
7. Loss		0					
8. Total Closing Stock		2,041					
9. Frozen Stock		0					
10. Closing Tenderable Balance		2,041					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

TI STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of each as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of NOVEMBER, 19 50

JEARLEE HUNSAKER

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-J Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 12th-1st, 19 50 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator Phillips Petroleum Company Month of November, 19 50

Main Office Bartlesville, Oklahoma Local or Field Office Phillips, Texas

Plant Name Sneed Field West County Moore

Type of Plant Gasoline (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

Intake Pressure 175-500 P.S.I. Avg. Tested GPM .328 Recovered GPM .486

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2	Gas From Sweet Gas Wells " " " "		
3	Gas From Sour Gas Wells " " " "		
4	Refinery and Storage Vapors Tieover from Rock Creek	66,536	1,996,076
5	Gas From Other Sources Panhandle Eastern Pipeline	160,645	4,819,345
	TOTALS	227,181	6,815,421

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	7,497	224,905	7. Repressuring		
2. Plant Fuel	3,384	101,516	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	216,300	6,489,000
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	227,181	6,815,421

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
Panhandle Eastern Pipeline	Kansas City, Missouri	Industrial	6,489,000

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	3,877	116,324	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Drip Gasoline	10-7744	0
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd
Natural Gasoline	10-7702	160,000	116,795

Section VI — Barrels

	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1 Opening Tender Balance		2,041					
2 Frozen Stock		0					
3 Total Opening Stock		2,041					
4 Received		0					
5 Produced		116,324					
6 Delivered		116,795					
7 Loss		0					
8 Total Closing Stock		1,570					
9 Frozen Stock		0					
10 Closing Tenderable Balance		1,570					

Signed PHILLIPS PETROLEUM CO. By ..... Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared ..... G. F. ROBIE ....., known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of DECEMBER, 19 50.

HAZEL N. MARTIN

Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-68-K Approved this ..... day of ....., 19.....

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 1st - 1st 19..... BY .....

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of DECEMBER, 1950

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

Intake Pressure 175-500 P.S.I. Avg. Tested GPM .328 Recovered GPM .456

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors TIEOVER FROM ROCK CREEK	65,749	2,038,224
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	161,704	5,012,832
	TOTALS	227,453	7,051,056

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	7,506	232,692	7. Repressuring		
2. Plant Fuel	3,198	99,145	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	216,749	6,719,219
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	227,453	7,051,056

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
PANHANDLE EASTERN PIPELINE	KANSAS CITY, MISSOURI	INDUSTRIAL	6,719,219

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1. Condensate			6. Propane		
2. Crude Oil			7.		
3. Gasoline (as made)	3,842	119,116	8.		
4. Kerosene					

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
DRIP GASOLINE	10-7808	0
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10-7798	175,000	118,649

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,570					
2. Frozen Stock		0					
3. Total Opening Stock		1,570					
4. Received		0					
5. Produced		119,116					
6. Delivered		118,649					
7. Loss		0					
8. Total Closing Stock		2,037					
9. Frozen Stock		0					
10. Closing Tenderable Balance		2,037					

Signed PHILLIPS PETROLEUM COMPANY By _____ Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared _____ G. F. ROBIE _____, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown on this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 15th day of JANUARY, 19 51.

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-L Approved this _____ day of _____, 19____.

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 2nd-1st 19 51 BY _____

(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of JANUARY, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

Avg. Intake Pressure 175-500 P.S.I. Avg. Tested GPM .328 Recovered GPM .422

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	Refinery and Storage Vapors TIEOVER FROM ROCK CREEK	66,526	2,062,306
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	162,057	5,023,767
	TOTALS	228,583	7,086,073

Section II — DISPOSITION OF RESIDUE GAS

	Daily Average MCF	Monthly Totals MCF		Daily Average MCF	Monthly Totals MCF
1. Extraction Loss	7,543	233,833	7. Repressuring		
2. Plant Fuel	3,212	99,572	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	217,828	6,752,668
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	228,583	7,086,073

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
PANHANDLE EASTERN PIPELINE	KANSAS CITY, MISSOURI	INDUSTRIAL	6,752,668

2. Crude Oil				6. Propane			
3. Gasoline (as made)	3,590	111,291		7			
4. Kerosene				8.			

Section V — Tender Operation Statement — ACTUAL DELIVERIES

Commodity	Tender No.	Bbls. Received	Commodity	List Tenders in Numerical Order — Tender No.	Amt. of Tender	Bbls. Del'd.
DRIP GASOLINE	10-7906	0	NATURAL GASOLINE	10-7900	160,000	111,755
			DRIP GASOLINE		15,000	0
TOTALS						

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		2,037					2,037
2. Frozen Stock		0					0
3. Total Opening Stock		2,037					2,037
4. Received		0				0	0
5. Produced		111,291					111,291
6. Delivered		111,755					111,755
7. Loss		0					0
8. Total Closing Stock		1,573					1,573
9. Frozen Stock		0					0
10. Closing Tenderable Balance		1,573					1,573

Signed PHILLIPS PETROLEUM CO. By _____ Title SENIOR ENGINEER

STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of FEBRUARY, 1951

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-A Approved this _____ day of _____, 19____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 3rd-1st, 1951 BY _____
(Follow Instructions on Reverse Side)

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of FEBRUARY, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

Intake Pressure 175-500 P.S.I. Avg. Tested GPM .328 Recovered GPM .471

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60° F

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Averages MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4. [redacted]	TIEOVER FROM ROCK CREEK	66,270	1,855,557
5. Gas From Other Sources	PANHANDLE EASTERN PIPELINE	162,865	4,560,228
	TOTALS	229,135	6,415,785

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	7,561	211,710	7. Repressuring		
2. Plant Fuel	3,152	88,259	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	218,422	6,115,816
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	229,135	6,415,785

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	MCF Monthly
PANHANDLE EASTERN PIPELINE	Kansas City, Missouri	Industrial	6,115,816

1. Condensate

9759

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[9759]

1 Condensate			5 Butane		
2 Crude Oil			6 Propane		
3 Gasoline (as made)	3,723	104,238	7		
4 Kerosene			8		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No	Bbls Received
Drip Gasoline	10-8006	25
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No	Amt of Tender	Bbls Del'd
Natural Gasoline	10-7997)	160,000	103,832
	)	15,000	25

Section VI Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1 Opening Tender Balance		1,573				0	1,573
2 Frozen Stock		0				0	0
3 Total Opening Stock		1,573				0	1,573
4 Received		0				25	25
5 Produced		104,238				0	104,238
6 Delivered		103,832				25	103,857
7 Loss		0				0	0
8 Total Closing Stock		1,979				0	1,979
9 Frozen Stock		0				0	0
10 Closing Tenderable Balance		1,979				0	1,979

Signed PHILLIPS PETROLEUM COMPANY By Title SENIOR ENGINEER

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared G. F. ROBIE, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct, that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of stock as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of March, 19 51

HAZEL N. MARTIN
Notary Public in and for HUTCHINSON County, Texas

Railroad Commission Seal Number 10-78-B Approved this ... day of ..., 19 ...

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A.M. 4th - 1st, 19 51 BY ...

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RAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISION

Form GP-1
Rev. 7-1-46

RRCT DIST. NO. 10

GAS PROCESSING PLANT MONTHLY REPORT AND TENDER OPERATIONS STATEMENT

Operator PHILLIPS PETROLEUM COMPANY Month of MARCH, 19 51

Main Office BARTLESVILLE, OKLAHOMA Local or Field Office PHILLIPS, TEXAS

Plant Name SNEED Field WEST County MOORE

Type of Plant GASOLINE (Gasoline—Pressure Maintenance—Recycling—Repressuring—etc.) Daily Average Intake Capacity of Plant 260,000

A. Intake Pressure 175-500 P.S.I. Avg. Tested GPM .328 Recovered GPM .498

All gas volumes must be reported at 14.4 pounds plus four ounces and flowing temperature at 60°F.

Section I — INTAKE VOLUME

Number of Wells Produced		Daily Average MCF	Monthly Totals MCF
1.	Gas From Oil Wells (Casinghead) Detail on Form GP-2		
2.	Gas From Sweet Gas Wells " " " "		
3.	Gas From Sour Gas Wells " " " "		
4.	TIEOVER FROM ROCK CREEK	66,275	2,054,531
5.	Gas From Other Sources PANHANDLE EASTERN PIPELINE	162,217	5,028,712
	TOTALS	228,492	7,083,243

Section II — DISPOSITION OF RESIDUE GAS

	Daily Averages MCF	Monthly Totals MCF		Daily Averages MCF	Monthly Totals MCF
1. Extraction Loss	7,340	233,740	7. Repressuring		
2. Plant Fuel	3,275	101,525	8. Recycling		
3. Lease Use			9. Carbon Black Plants		
4. Fuel System			10. Transmission Line	217,677	6,747,978
5. Gas Lift			11. Vented to Air	0	0
6. Press. Maint.			12. TOTALS	228,492	7,083,243

Section III — DETAIL OF SALE OF RESIDUE GAS

Name of Purchaser	Address	Used for	M.C.F. Monthly
PANHANDLE EASTERN PIPELINE	KANSAS CITY, MISSOURI	INDUSTRIAL	6,747,978

1. Condensate
2. Crude Oil
3. Butane
6. Propane

1. Condensate			5. Butane		
2. Crude Oil			6. Propane		
3. Gasoline (as made)	3,838	118,981	7.		
4. Kerosene			8.		

Section V — Tender Operations Statement

ACTUAL RECEIPTS

Commodity	Tender No.	Bbls. Received
Drip Gasoline		0
TOTALS		

List Tenders in Numerical Order

ACTUAL DELIVERIES

Commodity	Tender No.	Amt. of Tender	Bbls. Del'd.
NATURAL GASOLINE	10-8091	175,000	118,753

Section VI — Barrels	Crude Oil or Condensate	Gasoline	Kerosene	Butane	Propane	Other	TOTAL
1. Opening Tender Balance		1,979					1,979
2. Frozen Stock		0					0
3. Total Opening Stock		1,979					1,979
4. Received		0					0
5. Produced		118,981					118,981
6. Delivered		118,753					118,753
7. Loss		0					0
8. Total Closing Stock		2,207					2,207
9. Frozen Stock		0					0
10. Closing Tenderable Balance		2,207					2,207

Signed PHILLIPS PETROLEUM CO. By _____ Title GAS SUPERINTENDENT

THE STATE OF TEXAS
COUNTY OF HUTCHINSON

BEFORE ME, The undersigned authority, on this day personally appeared R. S. RICHESON, known to be the person whose name is subscribed to the above instrument, who, being by me duly sworn, on oath states that he duly authorized to make the above report and that he has knowledge of the facts stated therein and that said report is true and correct; that such products of crude oil were received and tendered for shipment in accordance with the conservation laws of the State of Texas and the rules and regulations of the Railroad Commission of Texas and he further states that they are entitled to tender for shipment the amount of each as shown on this report, and that no crude oil nor the products in addition to that shown in this report was received, delivered, handled or processed during the reporting period.

Subscribed and sworn to before me this 14th day of APRIL, 19 51

JEARLEE HUNSAKER
Notary Public in and for HUTCHINSON County, Texas.

Railroad Commission Seal Number 10-78-C Approved this _____ day of _____, 19 ____

RAILROAD COMMISSION OF TEXAS

Void After 7:00 A. M. 5th - 1st, 19 51 BY _____

(Follow Instructions on Reverse Side)

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Exhibit No. 181

PHILLIPS PETROLEUM COMPANY
DUMAS AND SNEED GASOLINE PLANTS
FEBRUARY, 1951

	MCF @ 14.65 PSIA		
	Total	*Portion processed at:*	
	Panhandle Field Lines	*Dumas Plant*	*Sneed Plant*
Total gas produced from leases operated by Phillips (1)	11,840,408		
Gas purchased from other companies (1)	3,229,616		
Total (2)	15,070,024	4,896,887	1,855,557
Gas of Panhandle Eastern Pipe Line Co. processed			4,560,227
Total gas processed at Sneed Plant			6,415,784
Sold to El Paso Natural Gas Co. at Dumas Plant		4,791,295	
Total Phillips gas processed at Sneed Plant			1,855,557
Less: Gas taken into reabsorber			55,550
Gas metered to Panhandle Eastern Pipe Line Co.			1,800,007
Less: Gasoline shrinkage make-up			127,670
Less: Vapors taken to reabsorber			58,050
Billed to Panhandle Eastern Pipe Line Co. at Sneed Plant			1,614,287

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1. Includes royalty, overriding royalty and any

2. Gas gathered in the Panhandle Field Line Gathering System is also delivered for processing and disposal at the Canadian, Rock Creek and Sanford gasoline plants in addition to other gas gathered directly into such plants. A portion of the gas is also sold from the gathering system before processing.

[9783]

Exhibit No. 182

PHILLIPS PETROLEUM COMPANY
CRANE, FULLERTON, EUNICE
AND GOLDSMITH GASOLINE PLANTS
FEBRUARY, 1951

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	MCF at 14.65 PSIA			
	Crane Plant	*Fullerton Plant*	*Eunice Plant*	*Goldsmith Plant*
Total gas produced from leases operated by Phillips (1)	5,438	316,516	69,618	829,311
Gas purchased from other companies (1)	964,344	1,010,109	3,158,815	2,370,334
Total gas processed	969,782	1,326,625	3,288,433	3,199,645
Sold to El Paso Natural Gas Co.	436,904	976,017	2,214,861	2,575,107
Gas delivered to El Paso Natural Gas Co. at Goldsmith which is compressed by El Paso				1,884,437
Less: Shrinkage due to extraction of liquid hydrocarbons				298,337
Sold to El Paso Natural Gas Company at Goldsmith				1,586,100
Additional gas sold to El Paso Natural Gas Co. at Goldsmith for delivery to Sid Richardson Carbon Plant				989,007
Total sold to El Paso Natural Gas Co. at Goldsmith				2,575,107

1. Includes royalty, overriding royalty and any working interests owned by others.

[9784]

Exhibit No. 183

PHILLIPS PETROLEUM COMPANY
HANSFORD GASOLINE PLANT
FEBRUARY, 1951

	MCF at 14.65 PSIA
Total gas produced from leases operated by Phillips including royalty, overriding and any working interests owned by others	3,154,024
Gas purchased from other companies	NONE
Total gas processed at Hansford Plant	3,154,024
Sold to Panhandle Eastern Pipe Line Co. at Hansford	3,015,934

[9785]

Exhibit No. 184

PHILLIPS PETROLEUM COMPANY
GRAY GASOLINE PLANT
FEBRUARY, 1951

	MCF at 14.65 PSIA	
	TOTAL	PORTION PROCESSED AT GRAY PLANT
Pampa Field Lines (1):		
Total gas produced from leases oper-		

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ated by Phillips (2)	1,676,000	
Gas purchased from other companies (2)	1,030,357	
Total Pampa field lines	2,706,357	1,677,879
North plant gathering system:		
Total gas produced from leases operated by Phillips (2)	10,322	
Gas purchased from other companies (2)	219,973	
Total North plant gathering system	230,295	80,625
TOTAL	2,936,652	1,758,504
Sold to Independent Natural Gas Company from Gray Plant		1,394,480

1. Gas gathered in the Pampa field line gathering system is also delivered for processing and disposal at the Bowers, Lefors, and Pampa gasoline plants, in addition to gas gathered directly into such plants.
2. Includes royalty, overriding royalty and any working interests owned by others.

[9787]

Exhibit No. 186

INFORMATION REQUESTED CONCERNING VAPOR STREAMS IN SNEED PLANT

	Btu/cf at 30" 60° F., Saturated
Heat Content of Vapors from second flash tank and first vent tank returned to absorbers 3-18-51	1,673*

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Heat Content of fractionator overhead vapors returned to 24″ residue gas line to Panhandle Eastern 11-21-50	2,243*
Heat Content of residue gas from absorbers before enrichment 11-21-50:	
No. 1 Absorber	1,000
No. 2 Absorber	996
No. 3 Absorber	998
No. 5 Absorber	1,000
No. 6 Absorber	999
Heat Content of fractionator reflux 2-22-50, used periodically, vaporized, to enrich residue gas	2,308*
Heat Content of residue gas stream to Panhandle Eastern after enrichment for February, 1951	1,012

*Figures with asterisks were calculated from fractional analyses; others were determined by Cutler-Hammer Calorimeter. No heat content was determined on No. 4 absorber because sample bomb leaked and sample was lost.

	Mcf per day at 14.65 psia
Volume of overhead vapor from fractionator for March, 1951	1,055
Volume of vapors from second flash tank and first vent tank for March 20-26, 1951	2,687
Volume of vapors from first flash tank and high stage accumulator to reabsorber for March, 1951	2,160

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INFORMATION REQUESTED CONCERNING LENGTH AND SIZE OF RESIDUE GAS LINES FROM ABSORBERS TO POINTS OF DELIVERY OF THE RESIDUE GAS

PLANT	LOCATION OF LINE		SIZE OF LINE	
	FROM	TO	LENGTH	DIAMETER
SHERMAN*	Absorber Outlet Scrubber Header	Meter run on line to Mich.-Wis.	600′	24″
			500′	24″
			300′	30″
HANSFORD	Dehydrator Outlet Header	Meter run on line to Panhandle Eastern	240′	20″
DUMAS	Absorber Outlet Scrubber	Meter run on line to El Paso	900′	24″
SNEED	Absorber Outlet Scrubber	Plant Fence	270′	24″
GRAY**	Absorber Outlet Scrubber	Regulator	200′	20″
GOLDSMITH	600# Absorber Residue Gas Cooling Coils Outlet	Meter run on line to El Paso	1490′	24″
EUNICE	Absorber Outlet Scrubber	Meter run on line to El Paso	370′	24″
CRANE	Absorber Outlet Scrubber	Meter run on line to El Paso	1130′	20″
FULLERTON	Absorber Outlet Scrubber	Meter run on line to El Paso	600′	24″

*The 24″ lines are parallel and join before entering the 30″ line.

**Line from Regulator at Gray Plant to ING meter run is a 20″ line 1600′

[10213]

UNITED STATES OF AMERICA
FEDERAL POWER COMMISSION

Before Commissioners:

Nelson Lee Smith, Chairman; Thomas C. Buchanan, Claude L. Draper, Leland Olds and Harrington Wimberly.

October 28, 1948

In the Matter of
Phillips Petroleum Company

100-2 FORMAL
Docket No. G-1148

ORDER INSTITUTING INVESTIGATION

Upon consideration of the Commission's official files and the public records of other federal agencies pertaining to Phillips Petroleum Company (hereinafter referred to as "Respondent"), a Delaware corporation with principal executive offices at 80 Broadway, New York 5, New York, and Phillips Building, Bartlesville, Oklahoma;

It appears to the Commission that:

(a) Respondent is engaged, among other things, in the production, purchase, gathering, transportation and sale of natural gas in the States of Arkansas, Kansas, New Mexico, Oklahoma, and Texas;

(b) Respondent reports that it owns and operates approximately 3,800 miles of gathering, residue, and other gas lines located in the States designated

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above, together with various compressor or booster stations and appurtenant facilities;

(c) In this Commission's Opinion *In the Matter of Michigan-Wisconsin Pipe Line Company*, January 17, 1947, 6 F. P. C. ....., 67 P. U. R. (N .S.) 427, we stated therein with respect to the motion filed by the City of Detroit on October 11, 1946, for an order requiring Respondent herein to be made a party to the proceeding in Docket No. G-669:

> "We believe that whether Phillips is or is not a natural gas company cannot properly be determined in this proceeding. If such determination is required it should be made a separate case after a thorough investigation of Phillips' operations and we therefore find that the motion of the City of Detroit should be dismissed."

(d) By its letters of June 19, August 15, September 6, 1940, April 3, 1941, and August 3, 1943, to this Commission, Respondent has disclaimed that it is or will be a natural-gas company within the meaning of that term as used in the Natural Gas Act;

[10214]

(e) In 1947, Respondent reported to the Securities and Exchange Commission, with respect to its sale of natural gas to purchasers which transport and sell the gas in interstate commerce, that "Although such sales and the transportation of natural gas antecedent thereto constitute operations by the Company as a 'natural gas company' under the Natural Gas Act, and, as such, are subject to the Federal Power Commission's jurisdiction, unless the exercise of such jurisdiction constitutes an in-

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terference with state regulation of production and gathering, the Commission with Commissioner Draper dissenting in a declaration made on the 15th day of August, 1947, disclaimed the intention to exercise jurisdiction over such sales if made at arm's length, that is, sales made as an incident to the producing or gathering operation by a producer or gatherer of gas to a nonaffiliate (Order No. 139, Docket No. R-106)";

(f) By reason of its operations, facilities, and sales of natural gas to purchasers which transport and resell such gas in interstate commerce for ultimate public consumption, Respondent may be a natural-gas company subject to the jurisdiction of the Commission;

The Commission *finds* that:

It is necessary and proper, in the public interest, that an investigation be instituted by the Commission, upon its own motion:

(1) To determine whether Respondent is a natural-gas company within the meaning of the Natural Gas Act; and

(2) Into and concerning all rates, charges, or classifications demanded, observed, charged or collected by Respondent in connection with any transportation or sale of natural gas, subject to the jurisdiction of the Commission, and any rules, regulations, practices, or contracts affecting such rates, charges, or classifications;

The Commission, upon its own motion, *orders* that:

An investigation of Respondent, Phillips Petroleum Company, be and hereby is instituted for the purpose of enabling the Commission:

(A) To determine with respect to the Respondent:

(i) Whether it is a natural-gas company within the meaning of the Natural Gas Act; and

[10215]

(ii) Whether, in connection with any transportation or sale of natural gas, subject to the jurisdiction of the Commission, any rates, charges, or classifications demanded, observed, charged, or collected, or any rules, regulations, practices or contracts affecting such rates, charges, or classifications are unjust, unreasonable, unduly discriminatory, or preferential; and

(B) If it shall find, after hearing, that the Respondent is a natural-gas company within the meaning of the Natural Gas Act, and that any of Respondent's rates, charges, classifications, rules, regulations, practices, or contracts, subject to the jurisdiction of the Commission, are unjust, unreasonable, unduly discriminatory, or preferential, to determine and fix by order or orders just and reasonable, nondiscriminatory or non-preferential rates, charges, classifications, rules, regulations, practices, or contracts to be thereafter observed and in force.

By the commission,

LEON M. FUQUAY
Leon M. Fuquay,
Secretary.

Date of Issuance: October 29, 1948

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[10218]

UNITED STATES OF AMERICA
FEDERAL POWER COMMISSION

Before Commissioners:

Nelson Lee Smith, Chairman; Thomas C. Buchanan, Claude L. Draper, Mon C. Wallgren and Harrington Wimberly.

February 9, 1950

In the Matter of
Phillips Petroleum Company

Docket No. G-1148

ORDER SPECIFYING ISSUES AND FIXING DATE OF HEARING

The Commission, acting pursuant to its authority under the Natural Gas Act, by order of October 28, 1948, instituted an investigation of the natural gas operations of Phillips Petroleum Company (Phillips) to determine:

(i) Whether it is a "natural-gas company" within the meaning of the Natural Gas Act; and

(ii) Whether, in connection with any transportation or sale of natural gas, subject to the jurisdiction of the Commission, any rates, charges, or classifications demanded, observed, charged or collected, or any rules, regulations, practices or contracts affecting such rates, charges, or classifications are unjust, unreasonable, unduly discriminatory, or preferential.

By letter complaint under date of January 16, 1950, the Corporation Counsel for the City of Detroit made reference to the investigation instituted by the Commission in this docket and, among other allegations, recited that:

> "Based upon the estimated deliveries to Detroit for the year 1953 by Michigan Consolidated Gas Company of 94,510,000 M. C. F. (Exhibit I-A1, Docket No. G-1156) and assuming that Panhandle Eastern Pipe Line Company will supply 43,848,000 M. C. F. the deliveries by Michigan-Wisconsin to Michigan Consolidated will be approximately 50,626,000 M. C. F. It appears, therefore, that the increase in the price charged Michigan-Wisconsin by Phillips from the approximately 5¢ (16.4 lbs) specified in the original contract of December 11, 1945, to the approximately 8½¢ (16.4 lbs.) minimum will increase the cost of gas to the City of Detroit by approximately $1,770,000 in the year 1953 as a minimum.
>
> "It is the position of the City of Detroit, which receives its natural gas supply from the Michigan Consol-

[10219]

> idated Gas Company, Buyer of gas sold by the Michigan-Wisconsin Pipe Line Company, that the rate proposed in the so-called interim tariff, designed to become effective February 1, 1950, may, because of the increase in the rates of Phillips Petroleum Company for such gas, as above set forth, prove to be unjust, unreasonable and excessive to the ultimate prejudice of the gas consumers of the City of Detroit."

The Public Service Commission of Wisconsin, in a complaint filed on January 19. 1950, respecting FPC Gas Tariff,

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Original Volume No. 1, of Michigan-Wisconsin Pipe Line Company, filed pursuant to the requirements of paragraph (D) of the Commission's order dated July 26, 1940, in Docket No. G-1156, alleges,

"3. That the sole supplier of natural gas to Michigan-Wisconsin Pipe Line Company has been and is Phillips Petroleum Company, and no satisfactory basis has been established for the frequent and large increases in price paid for said gas which have taken place since the pipeline was projected and before substantial deliveries of gas had even commenced. That Michigan-Wisconsin Pipe Line Company was given a certificate of public convenience and necessity by the Federal Power Commission on the basis of a contract with Phillips Petroleum under which the latter agreed to furnish up to 343,000,000 cubic feet of natural gas daily at an initial price of 5¢ per mcf, subject to an escalator clause. That the Wisconsin Public Service Commission considers that said escalator clause was highly undesirable and prejudicial to the consumer and was not warranted by conditions affecting the supplier. That since the date of the initial contract, several supplementary contracts have been entered into between Michigan-Wisconsin and Phillips Petroleum which not only provide for additional gas supplies (to make up for deficiencies in Phillips Petroleum original contract commitment) at higher prices but also provide for repricing upward the initial gas commitments. That under the supplementary contracts, the priority requirements of the various sources of supply have been so rearranged that Phillips Petroleum may draw increasing quantities of gas from the higher priced sources. That the effect of these various supplemental agreements has been to increase the cost of gas approximately 100%

over the initial arrangement; this before anything more than a token amount of gas had been delivered and long before reaching the maximum amount to be delivered under the original commitment. The Wisconsin Public Service Commission asserts that the purchase rate for said gas is grossly excessive. That a restoration of the initial contract price would permit a reduction in the resale rate from 5 to 7¢ per mcf."

* * * * *

[10220]

"2. In view of the several consecutive increases in price for natural gas sold by Phillips Petroleum Company to Michigan-Wisconsin Pipe Line Company which aggregate an increase of over 100% resulting in higher rates to distributing companies and to the ultimate consumers, investigate into the contract or contracts or arrangements between Michigan-Wisconsin Pipe Line Company and Phillips Petroleum Company and take such action with respect thereto as may be appropriate and proper and which will result in a fair and just rate to distributing companies and ultimate consumers of natural gas in Wisconsin and states similarly situated."

Field investigations by the staff of the Commission, pursuant to the order of investigation in this docket, disclose that Phillips is engaged in extensive natural gas operations, including (1) the production, purchase, gathering and processing of natural gas produced in the States of Arkansas, Kansas, New Mexico, Oklahoma and Texas, (2) the transportation of natural gas produced in the State of Oklahoma to its Hansford Gasoline Plant in Hansford County, Texas, and (3) the sale of natural gas produced in the States named

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n (1) above to numerous natural-gas pipeline companies, which are each a "natural-gas comapny," for transportation by such pipeline companies across State lines to points in other States where the gas is resold for ultimate public consumption.

Interstate sales of natural gas during 1948 by Phillips to natural gas pipeline companies for interstate transportation and resale, and for which it received $5,350,064.92, in revenue, were as follows:

[10221]

Name of Natural Gas Company—Purchaser	States of Production and Sale	States of Consumption	Mcf Sold
Arkansas Louisiana Gas Co.	Texas Louisiana	Louisiana Texas Arkansas	1,412,867
Cities Service Gas Co.	Oklahoma	Oklahoma Kansas Missouri	14,418,512
Consolidated Gas Utilities Co.	Oklahoma	Oklahoma Kansas Missouri	3,175,904
El Paso Natural Gas Co.	New Mexico Texas	Texas New Mexico Arizona California	41,381,486
Independent Natural Gas Co. (A wholly owned subsidiary of Phillips)	Texas	Texas Louisiana Arkansas Oklahoma Kansas Nebraska Iowa Minnesota S. Dakota	14,143,777
Kansas-Nebraska Natural Gas Co.	Kansas	Kansas Nebraska	354,321
Lone Star Gas Co.	Oklahoma	Texas	418,884

Panhandle Eastern Pipe Line Co.	Texas Oklahoma	Texas Oklahoma Kansas Missouri Illinois Indiana Kentucky Michigan Ohio	70,941,381
Southern Natural Gas Co.	Louisiana	Mississippi Alabama Georgia	120,265
Southwestern Public Service Co.	Texas	Oklahoma	9,638
United Gas Pipe Line Company		Oklahoma Louisiana	2,795,865
	Total		149,172,902

[10222]

In addition to such interstate sales of natural gas, Phillips entered into a contract on December 11, 1945, for the sale of natural gas to Michigan-Wisconsin Pipe Line Company (Michigan-Wisconsin) under which Phillips is obligated to supply the entire gas requirements of Michigan-Wisconsin, but not to exceed 343,000,000 cubic feet per day. The contract provides that such gas requirements are to be produced from certain dedicated acreage in Sherman and Hansford Counties, Texas, and in Texas County, Oklahoma, and are to be delivered to Michigan-Wisconsin at a point in Hansford County, Texas. The gas to be sold under the contract is in part to be produced by Phillips from its own wells and in part to be purchased from other producers and resold to Michigan-Wisconsin.

Under certificates of public convenience and necessity issued by the Commission (Docket Nos. G-669 and G-1156), Michigan-Wisconsin has been authorized to construct and

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operate facilities to provide an average annual sales capacity of 56,575,000 Mcf of natural gas. A further application is pending before the Commission (Docket No. G-1302) for authority to increase its facilities to provide pipe line capacity of 125,195,000 Mcf annually, equal to that originally contemplated for the ultimate project in Docket No. G-669.

Michigan-Wisconsin is a "natural-gas company" under the Natural Gas Act and is engaged in the transportation of natural gas in interstate commerce and the sale thereof for resale for ultimate public consumption in the States of Missouri, Iowa, Wisconsin and Michigan. Phillips began deliveries of natural gas to Michigan-Wisconsin for resale on or about October 15, 1949.

[10223]

The contract of December 11, 1945, has been amended by supplemental agreements dated September 11, 1946, October 16, 1946, August 9, 1948, and December 1, 1949. Furthermore, on December 1, 1949, Phillips and Michigan-Wisconsin entered into two additional contracts for the purchase of gas from the Stratford Dome acreage in the Hugoton gas field of Texas and from the below sea level formation underlying the so-called "Kathryn" acreage, also in the Hugoton field. The volume to be supplied under each of the two latter contracts is dependent upon Phillips' development program respecting the acreage committed by each contract to the supplying of the gas requirements of Michigan-Wisconsin and the gas supplied under the December 11, 1945 contract, as amended, so that the total deliveries under the

three contracts will equal Michigan-Wisconsin's estimated daily requirements of 343,000,000 cubic feet.

The contract of December 11, 1945, as amended, and the contracts of December 1, 1949, provide for certain base prices to be paid by Michigan-Wisconsin. These prices increase at 5-year intervals with adjustments based upon the Bureau of Labor Statistics' Annual Index of Wholesale Prices of all Commodities, the resale price of natural gas by Michigan-Wisconsin and the prevailing field prices of gas in the Hugoton and Panhandle gas fields.

As stated above, the present annual sales capacity of 56,575,000 Mcf is proposed to be increased to 125,195,000 Mcf and it appears from staff estimates that the annual cost to Michigan-Wisconsin of 125,195,000 Mcf of natural gas which Phillips will supply to Michigan-Wisconsin under the contract of December 11, 1945, as amended, and the two new contracts

[10224]

of December 1, 1949, would be increased approximately $5,000,000 annually over the cost under the original contract. Furthermore, such contracts contain other provisions which, upon becoming operative in the future, may result in further substantial increases in the cost of gas to be supplied Michigan-Wisconsin.

Phillips has contracted to sell and is selling large volumes of natural gas from the Panhandle and Hugoton gas fields to Panhandle Eastern Pipe Line Company, Northern Natural Gas Company, Independent Natural Gas Company, and El Paso Natural Gas Company at various prices sub-

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stantially lower than the base prices specified in its contracts with Michigan-Wisconsin.

Wherefore, it appears to the Commission that:

It is necessary and desirable in the public interest that a public hearing be held to determine all relevant facts and circumstances surrounding the natural gas operations of Phillips Petroleum Company to enable the Commission to determine

(a) Whether Phillips Petroleum Company is a "natural-gas company" within the meaning of the Natural Gas Act;

(b) Whether in connection with any transportation or sale of natural gas subject to the jurisdiction of the Commission, including sales to Michigan-Wisconsin Pipe Line Company, any rates, charges, or classifications

[10225]

demanded, observed, charged or collected by Phillips Petroleum Company, or any rules, regulations, practices, or contracts affecting such rates, charges, or classifications are unjust, unreasonable, unduly discriminatory or preferential.

The Commission *orders*:

(A) A public hearing to be held commencing at 10 a. m. (CST) on March 20, 1950, in the Federal Court Room, U. S. Post Office Building, Bartlesville, Ok-

lahoma, respecting all matters and issues set forth in this order and the Commission's order of investigation under date of October 28, 1948.

(B) Interested State commissions may participate as provided by Sections 8 and 37 (f) [18 CFR 1.8 and 1.37] of the Commission's Rules of Practice and Procedure.

By the Commission

.....

Leon M. Fuquay,
Secretary.

Date of Issuance: February 9, 1950

[10307]

FEDERAL POWER COMMISSION

In the Matter of
Phillips Petroleum Company

Docket No(s). G-1148

DESIGNATION OF PRESIDING OFFICER(S)

The Commission, by order adopted February 9, 1950 as amended by orders adopted April 21, 1950, having directed that a hearing be held in the above-entitled matter(s), to convene at 10:00 (CST) o'clock am., on May 15, 1950, Edward B. Marsh, Examiner is (are) hereby designated to preside at the said hearing.

Done at Washington, D. C., this 4th day of May 1950, by authority of the Commission.

[signed] Mon C. Wallgren
Acting Chairman

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[10527]

UNITED STATES OF AMERICA
FEDERAL POWER COMMISSION

Before Commissioners:

Mon C. Wallgren, Chairman; Thomas C. Buchanan, Claude L. Draper, Nelson Lee Smith and Harrington Wimberly.

February 27, 1951

In the Matter of

Phillips Petroleum Company L

Docket No. G-1148

ORDER FIXING DATE OF HEARING

On December 15, 1950, Phillips Petroleum Company (Phillips) filed a motion seeking an order continuing the hearing in this matter, then set for January 8, 1951, for the duration of the present National Emergency, and in support thereof alleged increased obligation in the national defense effort. On December 19, 1950, the Commission entered an order postponing the hearing to a date to be fixed by further order of the Commission.

Thereafter, the City of Detroit, Michigan, intervener, filed a protest against any continuance. The State of Wisconsin and the Wisconsin Public Service Commission, interveners, filed a motion suggesting that the case be set for a day certain for the taking of a portion of the evidence; and Phillips filed a response in opposition thereto. Intervener Kansas City, Missouri, filed a motion asking that the proceeding be set down for a complete hearing. The County of

Wayne, Michigan, intervener, filed a supporting motion favoring the setting of the proceeding for hearing.

The Commission *finds:*

Sufficient cause has not been shown which justifies further postponement of the hearing upon the matters involved in this proceeding.

The Commission *orders:*

The hearing in this proceeding heretofore set for January 8, 1951, be and the same is hereby reset to commence on April 3, 1951, at 10:00 a. m .(CST), in the Federal Court Room, U. S. Post Office Building, Bartlesville, Oklahoma.

By the Commission.

J. H. Gutride,
Acting Secretary

Date of Issuance: February 28, 1951

[10538]

UNITED STATES OF AMERICA
BEFORE THE FEDERAL POWER COMMISSION

IN THE MATTER OF
PHILLIPS PETROLEUM COMPANY

DOCKET NO. G-1148

MOTION TO LIMIT ISSUES

Respondent, Phillips Petroleum Company, moves the Commission to amend its order of February 9, 1950, defining

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the issues in the above proceeding, by limiting the issues to be considered at the hearing set for April 3, 1951, at Bartlesville, Oklahoma, to a determination of whether Respondent is a "natural gas company" within the meaning of the Natural Gas Act.

Respondent shows the Commission that such an amendment to said order is advantageous to the Commission, to Respondent, and is in the public interest for the following reasons:

1. The Commission has on several occasions formally announced that in its opinion the Natural Gas Act does not give the Commission jurisdiction over independent producers and gatherers of natural gas.[1] No decisions of any court have held that the Commission was incorrect in this construction of the Act. Respondent is a producer and gatherer of natural gas, without affiliation with any interstate transmission company, and does not operate any pipe lines for the interstate

[10539]

transmission of natural gas. Since the Natural Gas Act expressly excludes "production and gathering" from its coverage, and since the Commission has held that the legislative history of the Act indicates that the language was intended to exclude sales by independent producers and gatherers

[1] IN THE MATTER OF COLUMBIAN FUEL CORPORATION, 2 FPC, 200; IN THE MATTER OF FIN-KER OIL AND GAS PRODUCTION COMPANY, 6 FPC 92; IN THE MATTER OF KANSAS-NEBRASKA NATURAL GAS COMPANY, INC. ET AL, 6 FPC 664; IN THE MATTER OF THE CHICAGO CORPORATION, 6 FPC 98; IN THE MATTER OF R. J. AND D. E. WHELAN, 6 FPC 672; IN THE MATTER OF SUPERIOR OIL COMPANY, 7 FPC 627.

from the Commission's jurisdiction,[3] the Commission's jurisdiction in this matter presents a serious question which the Commission must resolve before taking other action. In the event the Commission reaffirms its previous holdings as to its jurisdiction over such companies as Respondent, the hearing will be at an end and all evidence as to rates will necessarily be immaterial. When faced with a question upon which there is such serious doubt as here, the Commission's duty to the public obligates it to see that neither its own staff nor Respondent is required to spend large amounts of time and money preparing and submitting evidence which may never be material. The complicated problems which will inevitably arise in attempting to find proper standards for the regulation of producers and gatherers require months of intensive work and effort on the part of many members of the Commission's staff and numerous of Respondent's employees, including many of its attorneys and executives. The combined efforts of the staff and Respondent will cost the public and Respondent hundreds of thousands of dollars, which expenditures will have been futile if the Commission reaffirms its previous decisions. The seriousness of the jurisdictional question presented makes it the Commision's duty to the public not to require the presentation of rate testimony until that question shall have been determined.

[10540]

2. In order to determine whether Respondent's rates and charges are reasonable and not unduly discriminatory, the Commission and Respondent are faced with many com-

[3] IN THE MATTER OF COLUMBIAN FUEL CORPORATION, 2 FPC 200.

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plicated and technical problems which have not heretofore arisen in the determination of such questions. "The complicated interrelationship between the natural gas industry and the oil industry"[1] requires that a thorough study be made both by the Commission and by Respondent, and that a great variety of methods be tested and applied before adopting any particular standards for the regulation of the rates and charges of a producer and gatherer. In the event the Commission determines that Respondent is a natural gas company, the Commission must then weigh and give its most concentrated consideration to the respective merits and advantages of the various standards of rate regulation which may be proposed. By including in one hearing both the question of its jurisdiction and the question of the standards of regulation to be adopted, the Commission's decision as to whether it has jurisdiction over producers and gatherers will necessarily be long delayed, thus unduly extending the doubt and confusion now confronting the public and the oil and gas industry. If, on the other hand, the issue in this hearing is limited to the question of the Commission's jurisdiction, the evidence required of both the Commission's staff and Respondent will be greatly reduced, the time required for the hearing will be materially shortened, and the Commission may bring the existing uncertainty and confusion to an end by reaching a prompt decision.

[10541]

3. Respondent is engaged in the production and manufacture of many products which are of vital importance in

[1] IN THE MATTER OF COLUMBIAN FUEL CORPORATION, 2 FPC 200.

the present Emergency declared by the President. Many of these products are manufactured in whole or in part from natural gas. In attempting to solve the complicated problems arising in the search for the proper standards of rate regulation to be applied to a producer and gatherer, it is imperative that many of Respondent's technical experts and executives devote a large part of their time to the preparation of rate testimony. These same employees are the ones who are the most valuable and the most needed in the defense effort. If the issue in this hearing is limited to the question of the Commission's jurisdiction and the necessity for the preparation of rate testimony deferred until that question has been determined, these technical experts and executives can devote more of their time, experience, and ability to the defense effort now, when it is most needed.

RESPECTFULLY SUBMITTED,

RAYBURN L. FOSTER
HARRY D. TURNER
WARREN M. SPARKS
KENNETH HEADY

/s/ Warren M. Sparks
Of Counsel

Attorneys for Phillips Petroleum Company

[10542]

STATE OF OKLAHOMA
COUNTY OF WASHINGTON } SS

Before me a Notary Public in and for said county and state personally appeared Warren M. Sparks who, being duly sworn, deposes and says:

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Affiant is one of the attorneys of record of Phillips Petroleum Company in the above proceeding and is authorized to make this verification for and on behalf of Phillips Petroleum Company. Affiant makes this verification for Phillips Petroleum Company in lieu of one of its officers for the reason that affiant is best informed of the facts stated in the above motion. Affiant has read the above and foregoing motion and knows of his own knowledge that the facts stated therein are true and correct.

/s/ Warren M. Sparks
Warren M. Sparks

Subscribed and sworn to before me this 24th day of March, 1951.

/s/ Betty Langford

My commission expires:
June 25, 1951

(SEAL)

[10543]

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on parties of record in this proceeding by mailing a copy hereof properly addressed to the following:

Ike Murry
Attorney General of Arkansas
Capitol Building
Little Rock, Arkansas

State Corporation Commission of the
State of Kansas
New England Building
Topeka, Kansas

William E. Torkelson, Chief Counsel
Public Service Commission of Wisconsin
Madison 2, Wisconsin

Floyd Green, Conservation Attorney
Corporation Counsel of Oklahoma
Oklahoma City, Oklahoma

Joe L. Martinez, Attorney General
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Thomas E. Fairchild, Attorney General
Stewart G. Honeck, Deputy
State of Wisconsin
Madison, Wisconsin

Price Daniel
Attorney General of Texas
Charles E. Crenshaw
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Assistant Attorneys General
Attorneys for Railroad Commission of Texas
Capitol Station
Austin, Texas

C. E. Nethken, Chairman
Public Service Commission of West Virginia
Charleston, West Virginia

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[10544]

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Commissioner of Conservation of the
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[10545]

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Houston, Texas

Wesley E. Disney, General Counsel
Independent Natural Gas Association of America
918 Sixteenth Street, Northwest
Washington 6, D. C.

Dated this 27th day of March, 1951.

/s/ Warren M. Sparks
Attorney for Phillips Petroleum Company

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[10754]

UNITED STATES OF AMERICA
FEDERAL POWER COMMISSION

Before Commissioners:

Mon C. Wallgren, Chairman; Thomas C. Buchanan, Claude L. Draper, Nelson Lee Smith and Harrington Wimberly.

April 16, 1951

In the Matter of
Phillips Petroleum Company

Docket No. G-1148

ORDER GRANTING MOTION TO LIMIT ISSUES

On March 27, 1951, Phillips Petroleum Company (Phillips), Respondent herein, filed with the Commission a motion requesting that the Commission amend its order of February 9, 1950, by limiting the issues to be considered at the hearing set for April 3, 1951, "to a determination of whether Respondent is a 'natural gas company' within the meaning of the Natural Gas Act."

The reasons stated by Phillips in support of its motion filed March 27, 1951, may be summarized as follows:

> The Commission has on several occasions formally announced that in its opinion the Natural Gas Act does not give the Commission jurisdiction over independent producers and gatherers of natural gas, and no decisions of any court have held that the Commission was incorrect in this construction of the Act. The Commission's jurisdiction in this matter presents a serious question which must be resolved before the Commission can take

other action, and the Commission's duty to the public obligates it to see that neither its own staff nor Phillips is required to spend large amounts of time and money preparing and submitting evidence as to rates which may never be material. The seriousness of the jurisdictional question presented makes it the Commission's duty to the public not to require the presentation of rate testimony until that question shall have been determined.

In the event the Commission determines that Phillips is a natural gas company, the Commission must then give consideration to the respective merits and advantages of various standards of rate regulation which may be proposed. By including in one hearing both the question of its jurisdiction and the question of the standards of regulation to be adopted, the Commission's decision with respect to the issue of jurisdiction will long be delayed, thus unduly extending the doubt and confusion now confronting the public and the oil and gas industry. If however, the hearing now in progress is limited to the question of the Commission's jurisdiction, the existing uncertainty and confusion in this respect may be brought to an end through a prompt decision on this issue.

[10755]

Phillips is engaged in the production and manufacture of many products which are of vital importance in the present Emergency declared by the President. Many of these products are manufactured in whole or in part from natural gas. If the scheduled hearing is limited to the issue of jurisdiction, company technical experts and executives can devote their time to the defense effort, whereas if the issues are not so limited these same

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company employees must devote a large part of their time to preparation of rate testimony and evidence.

Phillips alleges that for these reasons the requested amendment is advantageous to the Commission, to Phillips, and is in the public interest.

Objections to the granting of the motion have been filed by the City of Kansas City, Missouri; the City of Milwaukee, Wisconsin; the City of Detroit, Michigan; the County of Wayne, Michigan; the Commission's Staff; and the State and the Public Service Commission of Wisconsin, the latter two requesting oral argument on the motion.

The following have submitted statements in support of, or consent to the granting of, the motion filed by Phillips: Oil and Gas Commission of Arkansas; the State of Texas; the State of New Mexico and the Oil Conservation Commission of New Mexico; Corporation Commission of Oklahoma; Independent Natural Gas Association; Texas Independent Producers and Royalty Association, et al; Port Neches Royalty Owners Association; Old Ocean Royalty Owners Association, et al; Corporation Commission of Kansas; State of Mississippi and Oil and Gas Board of Mississippi; Commissioner of Conservation of State of Louisiana; Texas County Land and Royalty Association.

On October 29, 1948, the Commission issued its order herein instituting an investigation of Phillips for the purpose of enabling the Commission:

(A) To determine with respect to the Respondent:

(i) Whether it is a natural-gas company within the meaning of the Natural Gas Act; and

(ii) Whether, in connection with any transportation or sale of natural gas, subject to the juris-

diction of the Commission, any rates, charges, or classifications demanded, observed, charged, or collected, or any rules, regulations, practices or contracts affecting such rates, charges, or classifications are unjust, unreasonable, unduly discriminatory, or preferential, and

(B) If it shall find, after hearing, that the Respondent is a natural-gas company within the meaning of the Natural Gas Act, and that any of Respondent's rates, charges, classifications, rules, regulations, practices, or contracts, subject to the

[10756]

jurisdiction of the Commission, are unjust, unreasonable, unduly discriminatory, or preferential, to determine and fix by order or orders just and reasonable, non-discriminatory or non-preferential rates, charges, classifications, rules, regulations, practices, or contracts to be thereafter observed and in force.

On February 9, 1950, the Commission issued its order herein specifying issues and ordering that a public hearing be held on March 20, 1950.

respecting all matters and issues set forth in this order and the Commsision's order of investigation under date of October 28, 1948.

The date fixed for hearing by the Commission's order issued February 9, 1950, has been postponed from time to time by Commission order, and said hearing began on April 3, 1951, and is now in progress.

On July 6, 1950, Phillips filed with the Commission a motion requesting that the issues herein be limited to a de-

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termination of whether or not Phillips is an independent producer and gatherer of natural gas within the meaning of the Commission's Order No. 139 and Section 03.79 of the rules of the Commission. This motion was dismissed by the Commission's order issued July 25, 1950, on the grounds that the motion raised questions which became moot when the Commission's Order No. 139 was rescinded by the Commission's Order No. 154 dated July 11, 1950.

Upon consideration of the motion to limit issues filed herein by Phillips on March 27, 1951, of the Commission's orders issued herein, and all of the foregoing, the Commission *finds*:

(1) Although the Commission by order has set forth the issues to be heard herein, the order in which such issues shall be heard has not been prescribed.

(2) Orderly procedure requires that the following issue, heretofore set forth in the Commission's orders issued herein, first be heard at the hearing now in progress, viz:

> Whether Phillips Petroleum Company is a "natural-gas company" within the meaning of the Natural Gas Act.

(3) Orderly procedure requires, and it is in the public interest, that hearing be held upon and a determination made by the Commission of the issue of whether Phillips Petroleum Company is a "natural-gas company" within the meaning of the Natural Gas Act, before hearing is held upon any other issue in this proceeding.

[10757]

(4) Hearing upon issues herein other than that set

forth in paragraph (2) hereof should be held as soon as practicable after hearing upon said issue, at a time and place to be fixed by further order of the Commission.

(5) The motion to limit issues filed by Phillips on March 27, 1951, should be granted to the extent hereinafter ordered, and in all other respects should be denied.

The Commission *orders*:

(A) The matters to be presented at the public hearing now in progress shall be only those relevant to the following issue set forth in the Commsision's order of investigation issued October 29, 1948, to-wit:

> Whether Phillips Petroleum Company is a "natural-gas company" within the meaning of Natural Gas Act.

(B) A public hearing be held upon the remaining issues set forth in the Commission's order of investigation issued October 29, 1948, at a time and place to be fixed by further order of the Commission.

(C) The Motion to Limit Issues, filed herein by Phillips Petroleum Company on March 27, 1951, is granted to the extent herein ordered, and in all other respects is denied.

By the Commission. Commissioner Buchanan dissenting.

LEON M. FUQUAY
Leon M. Fuquay,
Secretary.

Date of Issuance: April 17, 1951

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[10758]

In the Matter of
Phillips Petroleum Company

Docket No. G-1148

BUCHANAN, Commissioner, dissenting:

It is with great regret that in what may seem to be a purely procedural step I find it necessary to dissent from my colleagues.

While the action of the majority seems to have the merit of attempting to put first things first and also of seeking an orderly procedure in the public interest, it is my judgment that the action may have the opposite result.

Whatever our decision may ultimately be on the jurisdictional question, there can be little doubt that an attempt will be made by the aggrieved party to appeal that decision, although a question has already been raised on the record whether the parties complaining of the rates charged by Phillips would be an "aggrieved party" for purposes of appeal in the absence of a determination of the merits of the rate issue. But even if an appeal may ultimately be taken, it does not follow that the rights of the parties complaining of the rates charged are fully protected, if the effect of the procedure followed is to unnecessarily delay a rate reduction to which it may be found they are entitled.

[10759]

Our experience in those cases where jurisdiction was the sole major issue indicates that the average time elapsed

between the date of the conclusion of the formal hearing and the date of the final decision, judgment or decree in the appellate courts exceeds three years.[1] So it would appear that upon conclusion of our hearings on the jurisdictional issue, even if we find that the Natural Gas Act confers jurisdiction, the State of Wisconsin and the City of Detroit, Michigan, must wait three years before the substantive issue in which they are interested — just and reasonable rates — can be pursued to final hearing before this Commission.

In other words, if the present rates are excessive, reduction of those rates will be postponed by as much as three years more than if the jurisdictional and substantive issues were tried simultaneously. Unfortunately, under the situation created by the Commission's action severing the two issues for hearing purposes, there is no way for the complainants against Phillips's rates to ever recover

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payment of the three years of excessive rates, if those rates should ultimately be found to be excessive, because the Natural Gas Act makes no provision for reparations.

---

[1]Court reviews of Commission orders in the method provided by statute have included nine cases in which a jurisdictional question was the only major issue. In those nine cases an average of approximately 40 months elapsed between the conclusion of the formal Commission hearing and the final court judgment and decree. The cases are: **FPC v. East Ohio Gas Co.**, 338 U. S. 464; **Connecticut L. & P. Co. v. FPC**, 324 U. S. 515; **Jersey Central P. & L. Co. v. FPC**, 319 U. S. 61; **Montana Power Co. v. FPC**, 185 F. 2d 491; **Border Pipe Line Co. v. FPC**, 171 F. 2d 149; **Cia Mexicana de Gas S. A. v. FPC**, 167 F. 2d 804; **Georgia Power Co. v. FPC**, 152 F. 2d 908; **Wisconsin PSC v. FPC**, 147 F. 2d 743; **Hartford El. Lt. Co. v. FPC**, 131 F. 2d 953.

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Furthermore, I believe that an examination made of the past practices of the Federal Power Commission in rate cases will reveal no single instance where the jurisdictional question was separated from the rate question, and there are good reasons for this practice. If the two issues were heard together in the instant case, as has been the practice of the Commission, where do the equities fall? The answer seems obvious: chiefly inconvenience to Phillips, on the one hand, and possible savings of three years excessive rates to the ultimate consumers, on the other.

In this connection, I believe what was said sometime ago in an extemporaneous statement by an early and respected member of this Commission is pertinent here:

> "* * * I am very frank to say that in the position I find myself in, understanding that I am one of the five gentlemen who are to represent the public's interest, I hope, knowing all the time that we do represent the public, that if after a thorough study of this problem, I should have a lively doubt about it, I would unhesitatingly resolve that doubt in favor of the public interest, and for this reason, as far as I am concerned: that if in resolving that doubt in favor of the public interest, I may have unwittingly done the applicant an injustice, that injustice may be relieved and corrected by an opinion of the Supreme Court; whereas, if I should resolve the doubt against the public interest, I

[10761]

> do not now presently think of any effective means by which the public interest could be protected against my injudicious decision. For that reason I would resolve a real doubt in favor of the public interest. * * * "[1]

I would deny the motion filed by Phillips.

'Commissioner McNinch in the hearing upon the application of The Appalachian Electric Power Company, Project No. 739, February 17, 1931, T .254.

Thomas C. Buchanan, Commissioner

April 17, 1951

Date of Issuance: April 17, 1951

[10774]

UNITED STATES OF AMERICA
FEDERAL POWER COMMISSION

Before Commissioners:

Mon C. Wallgren, Chairman; Thomas C. Buchanan, Claude L. Draper, Nelson Lee Smith and Harrington Wimberly.

May 31, 1951

In the Matter of
Phillips Petroleum Company

Docket No. G-1148

ORDER GRANTING MOTION FOR OMISSION OF INTERMEDIATE DECISION PROCEDURE AND FIXING DATE FOR ORAL ARGUMENT

At the conclusion of the hearing in this matter, Commission staff counsel made an oral motion before the Presiding Examiner, pursuant to Section 1.30(c) of the Rules of Practice and Procedure, requesting that the intermediate

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decision procedure be omitted. This motion was concurred in by counsel for respondent and all counsel present. In concurring in the motion for omission of the intermediate decision procedure, counsel for respondent requested oral argument before the Commission and all counsel joined in this request.

The Presiding Examiner has fixed June 22, 1951, as the date for the filing of initial briefs and July 5, 1951 for the filing of reply briefs. The motions for the omission of the intermediate decision procedure and for oral argument have been referred to the Commission for its consideration.

The Commission *finds*:

Good cause exists for omitting the intermediate decision procedure and for setting the matter for oral argument.

The Commission *orders*:

(A) The motion for omission of the intermediate decision procedure be and the same is hereby granted.

(B) The matters involved and the issues presented in this proceeding be and the same are hereby set for oral argument before the Commission commencing at 10:00 a. m. (EDST), on July 9, 1951, in Conference Room "B" of the Departmental Auditorium, Constitution Avenue between 12th and 14th Streets, N. W., Washington, D. C.

By the Commission.

J. H. Gutride,
Acting Secretary.

Date of Issuance: June 1, 1951

[10818]

UNITED STATES OF AMERICA

FEDERAL POWER COMMISSION

Before Commissioners: Mon C. Wallgren, Chairman; Thomas C. Buchanan, Claude L. Draper, Nelson Lee Smith and Harrington Wimberly.

August 16, 1951

Opinion No. 217

In the Matter of
Phillips Petroleum Company } Docket No. G-1148

APPEARANCES

For Phillips Petroleum Company

Rayburn L. Foster
Harry D. Turner
Warren M. Sparks
Kenneth Heady

For the Public Service Commission of Wisconsin

John C. Doerfer, Chairman
William E. Torkelson, Chief Counsel

For the Corporation Commission of the State of Oklahoma

Floyd Green, Conservation Attorney

For the State of New Mexico

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Joe L. Martinez, Attorney General of New Mexico
Peter N. Chumbris, Special Assistant Attorney General

For the City of Detroit, Michigan

Paul T. Dwyer, Acting Corporation Counsel
James H. Lee, Assistant Corporation Counsel

For the State Corporation Commission of the State of Kansas

Jeff A. Robertson, Chairman
Jay Kyle, General Counsel
Douglas Gleason, Special Counsel

For the State of Wisconsin

Vernon W. Thomson, Attorney General of Wisconsin
Stewart G. Honeck, Deputy Attorney General
Roy G. Tulane, Assistant Attorney General

[10819]

For the Public Service Commission of West Virginia

C. E. Nethken, Chairman

For the State of Texas and the Railroad Commission of Texas

Price Daniel, Attorney General of Texas
Everett Hutchinson, Executive Assistant Attorney General
Charles E. Crenshaw, Assistant Attorney General
Jack Baumel, Chief Engineer, Railroad Commission of Texas

For the Oil and Gas Commission of the State of Arkansas

Ike Murray, Attorney General of the State of Arkansas
Francis Wilson, Assistant to the Attorney General

For the County of Wayne, State of Michigan

Gerald K. O'Brien, Prosecuting Attorney
Leonard Simons, Special Assistant Prosecuting Attorney

For the Commissioner of Conservation of the State of Louisiana

Bolivar E. Kemp, Jr., Attorney General of the State of Louisiana
John L. Madden, Assistant Attorney General

For Kansas City, Missouri

David M. Proctor, City Counselor
Jerome M. Joffee, Special Utilities and Legislative Counsel

For the State of Mississippi and the State Oil and Gas Board of the State of Mississippi

John W. Kyle, Attorney General of the State of Mississippi
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For the City of Milwaukee, Wisconsin

Walter J. Mattison, City Attorney
Harry G. Slater, First Assistant City Attorney

For the Michigan Public Service Commission

Frank G. Millard, Attorney General State of Michigan
Charles M. A. Martin, Assistant Attorney General

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[10820]

For the Texas County Land and Royalty Association of Texas County, Oklahoma

Lamar and Bailey

For Texas Independent Producers and Royalty Owners Association and Certain Individual Producers and Royalty Owners

L. Alvis Vandygriff, General Counsel Texas Independent Producers and Royalty Owners Association
Hayden W. Head

For the Old Ocean Royalty Owners Association and Certain Royalty Owners in the Old Ocean Field, Brazoria and Matagorda Counties, Texas

J. R. Smith, President, Old Ocean Royalty Owners Association
C. H. Maxwell, Executive Secretary, Old Ocean Royalty Owners Association
Butler, Binion, Rice & Cook—Cecil N. Cook and James Noel

For the Independent Natural Gas Association of America

John A. Ferguson, Executive Director
Wesley E. Disney, General Counsel
Lawrence H. Gall

For the Federal Power Commission Staff

Lambert McAllister, Associate General Counsel
Howell Purdue
Robert W. Perdue

[10821]

OPINION

BY THE COMMISSION:

This is a proceeding to determine whether Phillips Petroleum Company (Phillips) is a "natural-gas company", as that term is defined in the Natural Gas Act. By our order of October 28, 1948, in Docket No. G-1148, an investigation was instituted to determine the foregoing question, and if Phillips should be found to be a "natural-gas company", whether any of its rates, subject to the Commission's jurisdiction, are unjust or unreasonable. Hearings before an Examiner in Bartlesville, Oklahoma, were begun on April 3, 1951, and concluded on May 23, 1951. By our order of April 16, 1951, we directed that matters to be presented at the hearings be only those relating to the first issue, whether Phillips is a "natural-gas company", and that a further hearing be held at a date to be fixed later as to the remaining issues.

The transcript covers approximately 6,000 pages, and some 196 exhibits were received in evidence, covering many thousands of pages.

Following the granting of an unopposed request by Staff Counsel for omission of the intermediate decision procedure, the entire Commission heard oral argument of the single issue for two days, July 9 and 10, 1951.

Some indication of the importance of and interest in this case may be gained from noting the intervenors. These included the following States, or their agencies: Louisiana,

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Michigan, Mississippi, Arkansas, Kansas, New Mexico, Oklahoma, Texas, West Virginia, and Wisconsin. Also intervening, were Wayne County, Michigan, and the Cities of Detroit, Michigan; Kansas City, Missouri; and Milwaukee, Wisconsin. Others include the Independent Natural Gas Association of America, Old Ocean Royalty Owners Association, The Texas County Land and Royalty Association, and Texas Independent Producers and Royalty Owners Association.

PHILLIPS' OPERATIONS

Phillips and its subsidiaries constitute one of the larger integrated units in the petroleum industry, owning in the United States reserves of crude oil, distillate, natural gas, and natural gasoline and other natural-gas liquids in the Mid-Continent, Illinois, West Texas and New Mexico, Rocky Mountain, and Gulf Coast areas. Similarly owned are natural gasoline plants, crude oil refineries, chemical plants, and carbon black plants. Still other properties include crude-oil pipe lines, refined-products pipe lines, and market outlets throughout the Central United States and the Rocky Mountain area and adjacent areas.

This integrated business includes: (1) acquisition and development of prospective and proved oil and gas leases and lands, production and purchase of crude oil, distillates, natural gasoline, and natural gas and derivatives thereof; (2) gathering by pipe

line and transporting by pipe line and other means crude oil, distillate, natural gasoline, and other natural-gas liquids, and refined products; (3) refining of crude oil and distillate for the production of refined products; (4) processing of natural gas for the production of natural gasoline and other natural-gas liquids, including the treatment necessary to prepare the natural gas for sale to pipe lines of other companies which transport and distribute the natural gas to industrial and household consumer markets; (5) production and sale of numerous petroleum chemicals, such as: anhydrous ammonia and nitrogenous fertilizers, including ammonium nitrate, ammonium sulphate, and ammonia solutions; furnace carbon blacks made from oil; pure hydrocarbons for anti-knock reference standards; research grade hydrocarbons; solvents; organic sulphur chemicals; and other specialty chemical products; and (6) marketing of crude oil, natural gas, distillate, and the products thereof.

As a source of the gross operating revenue of this integrated business for the year 1949, natural gas contributed 4.2% of the total. The percentage of net income from natural gas for that year, however, was estimated to be possibly two or three times greater than its percentage of gross operating revenue. The relative contributions from the various phases of the integrated business vary widely from year to year.

Notwithstanding these percentage figures, Phillips Petroleum Company is clearly a very large producer and processor

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of natural gas. Its total sales of natural gas amounted to 416,273,797 Mcf in 1949 and to 499,699,396 Mcf in 1950. Of these amounts, 220,881,579 Mcf were sold in 1949, and 324,500,988 Mcf in 1950 to companies reporting to the Commission as "natural-gas companies."

Approximately 85% of Phillips' leased acreage lies in the southwestern States of Arkansas, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas, with over 60% of the total in Texas. In 1950, it owned leases covering 8,757,452 gross acres in the United States, of which 841,451 were developed and 7,404,467 were undeveloped. On December 31, 1949, Phillips owned or controlled by contract 15.22 trillion cubic feet (14.65 p. s. i. a.) of proved gas reserves and 1,247,664,000 barrels of proved reserves of crude oil, natural gasoline, and other natural-gas liquids located within the United States.

A substantial part of the natural gas produced and purchased by Phillips flows from the producing wells through its own pipe lines for processing and preparation for market or other disposition at processing plants owned and operated by Phillips. In April 1950, it owned approximately 4,380 miles of gathering, residue, and other gas lines in Arkansas, Kansas, Oklahoma, Texas, and New Mexico. It also then owned and operated 25 natural gasoline plants, 19 in Texas, 4 in Oklahoma, and 2 in New Mexico. It has a part interest in 10 other plants, 3 of which it operates.

It may thus be observed that Phillips' operations are diverse and widespread. However, the evidence of record focuses attention on its natural-gas operations relating to certain sales of gas by Phillips to Michigan-Wisconsin Pipe Line Company (Michigan-Wisconsin), Panhandle Eastern Pipe Line Company (Panhandle), Independent Natural Gas Company (Independent), El Paso Natural Gas Company (El Paso), and Cities Service Gas Company (Cities Service). On the record here, any jurisdiction over Phillips as a "natural-gas company" must rest on one or more of these operations.

Under the Natural Gas Act, Phillips is a "natural-gas company" if it is engaged in the "transportation of natural gas in interstate commerce" or the "sale in interstate commerce of such gas for resale." Section 2(6). The provisions of the Act apply to such "transportation" and such "sale", but are made expressly inapplicable to "production or gathering" of natural gas. Section 1(b).

Phillips contends that gathering is an "operation conducted for the purpose of collecting gas to a central point in or near the field of production and conditioning it for disposal at or near said point, including such processing as may be required or may be desirable for the particular disposal and that gathering does not end until sale and delivery of the gas at the discharge or tailgate of the plant to the interstate transmission company." It thus argues that the exemption of "production and

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gathering" precludes a conclusion that its movement of gas is "transportation" and that any of its "sales" are jurisdictional within the meaning of Section 1(b).

The Staff contends that the "ultimate in gathering has been accomplished when a volume of gas has been assembled in a pipe line as a commingled, homogenous mass at or prior to the point where such pipe line (1) enters a processing plant enclosure, or (2) connects with a transmission pipe line." The function of certain of Phillips' lines, it is said, is therefore to "transport" gas from points where gathering has been completed to processing plants, Phillips thus being engaged in jurisdictional "transportation" and "sales" under Section 1(b). But it is argued by others that Phillips' "sales" are jurisdictional irrespective of where "gathering" is completed.

With these contentions among others particularly in mind, we turn to the facts relating to Phillips' sales to the aforementioned 5 companies:

Michigan-Wisconsin.—Under one contract, Phillips sells and delivers to Michigan-Wisconsin, gas produced from certain wells in the South Hugoton Field in Dallas, Sherman, and Hansford Counties in Texas, and Texas County in Oklahoma. Under a later contract, Phillips sells and delivers to Michigan-Wisconsin

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certain "excess" gas produced by wells in the Stratford Acreage in Sherman County, Texas, known as the "Area A Acreage."

Pressures at the well-mouth vary from 250 to 300 pounds per square inch, under which the gas flows without compression to the facilities of Michigan-Wisconsin, as described below. All of this gas, which is gas-well, or dry gas, flows from 388 connected wells, 300 producing sweet gas and 88 producing sour gas.[1]

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By means of pipe lines of various size owned and operated by Phillips, this gas flows from the wells to Phillips' Sherman processing plant in Hansford County, Texas. Among these, the following merit special note:

(1) Line H, which is 16 inches in diameter, extends from the westerly portion of Texas County, Oklahoma, in a general southeasterly direction to the Sherman plant, a distance of about 22 miles. This line crosses the State boundary at a point about 12½ miles from the Sherman Plant. Line H-2, 10 inches in diameter, crosses the State boundary and connects with line H at a point about 200 yards east of the point where the latter line crosses the State boundary. From the interconnection of lines H and H-2 to the Sherman plant enclosure, a distance of about 12½ miles, there is no pipe-line connection with line H, and gas collected from wells in Texas County flows through this line.

(2) Line G, 24 inches in diameter, extends from the easterly portion of Texas County, Oklahoma, to the Sherman plant. It crosses the State boundary about 14 miles east of the plant, and for the last

[1] "Sour gas" is gas containing sulphur content in excess of that permitted under the sales contract; gas otherwise is referred to as "sweet gas."

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12½ miles runs in a westerly direction. Line B, 10 inches in diameter, bringing gas produced in Texas County, Oklahoma, and Hansford County, Texas, connects with line G at a point approximately 4½ miles west of the point where line G crosses the State boundary. Between the latter point and a point 8 miles east of the Sherman plant, lines from some 10 wells in Hansford County connect with line G. The commingled gas then flows the remaining distance of 8 miles to the Sherman plant enclosure.

(3) By means of lines of varying diameter up to 24 inches, owned and operated by Phillips, gas flows from wells in the Stratford acreage in Sherman County, Texas, to the site of a proposed booster station in the northeasterly

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portion of Sherman County. From this point, the gas is carried a distance of 13 miles northeasterly to the Sherman plant enclosure by three paralleling lines, M, N, and O, each 24 inches in diameter. Line M carries sweet gas, and line O carries sour gas. Each line carries its total mass of gas at constant volume. Line N carries a mixture of sweet and sour gas. Gas from 14 wells flows into line N through two lines connecting at a point about 5 miles from the Sherman plant enclosure. The amount of gas thus added to line N is slight in relation to the total volume in line N.

Within the Sherman plant enclosure, gas from lines G, H, M, and N is commingled in a common header, and then

flows through a bank of three sweet-gas scrubbers to remove dust, pipe rust, and other foreign matter. Likewise, gas from line O flows through a bank of three scrubbers, and is then treated for removal of hydrogen sulphide to meet the sales contract specifications.

Next, all the foregoing gas flows to a common header where it is commingled, and then flows through a bank of 10 absorbers, where the content of heavier hydrocarbons is reduced in conformity with the requirements of the sales contracts.

Thereafter, the gas flows through a bank of outlet scrubbers into another common header where it is again commingled. Thence it flows in two lines, each 24 inches in diameter, a distance of about 200 yards to a connection with another line, 30 inches in diameter, through which the gas flows about 100 yards to a bank of 6 sales meters just inside the plant fence. The point of sale and delivery to Michigan-Wisconsin is at the outlet of said meters which are connected with two pipe lines, each 24 inches in diameter, owned and operated by Michigan-Wisconsin.

[10830]

From this point, Michigan-Wisconsin owns and operates a natural-gas pipe-line system extending through the States of Oklahoma, Kansas, Missouri, Iowa, Illinois, Indiana, Wisconsin, and Michigan. By means of this system, Michigan-Wisconsin transports gas purchased from Phillips for sale for ultimate public consumption in the States of Missouri, Iowa, Wisconsin, and Michigan. Phillips is the sole supplier of the gas requirements of Michigan-Wisconsin.

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Panhandle Eastern. — Phillips sells gas to Panhandle under two contracts, the gas being produced or purchased by Phillips from other producers in two different areas:

(South Hugoton Field) Under one contract, Phillips dedicated about 175,000 acres of leases owned by it in portions of the South Hugoton Field in Sherman and Hansford Counties in Texas, and in Texas County in Oklahoma.

The gas is collected through pipe lines, owned and operated by Phillips, which connect to 89 wells and carry gas to Phillips' Hansford plant. 84 produce sweet gas, and 5, sour gas. The well-mouth pressure varies from 325 to 350 pounds per square inch, which is sufficient to carry the gas, without compression, through the Phillips' facilities to Panhandle.

The following larger lines should be noted:

(1) Gas from wells in Texas County, Oklahoma, flows into lines A, B, D, E, and F, all of which increase in diameter as they near the

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Hansford plant enclosure, where the diameter of A is 20 inches and of each of the others, 16 inches. Lines A and B lie wholly within the State of Texas, but are connected with lines bringing gas from wells in Texas County, Oklahoma. Throughout most of their length, lines D, E, and F lie in the State of Oklahoma and are connected with lines bringing gas from wells within that State only.

(2) Gas from wells in Sherman and Hansford Counties, Texas, flows into lines A and B, already men-

tioned, and into a third line C, which is 16 inches in diameter at the Hansford plant enclosure. Line C lies wholly within the State of Texas, as do all wells connected with it.

At a point near, but outside, the Hansford plant south fence, lines A, B, and C connect to a common header where the gas from the lines is commingled. Thence, the gas flows into a line, 24 inches in diameter, into the plant enclosure to the absorber intake header.

At a point inside the north fence line of the Hansford plant, lines D, E, and F connect to a common header where the gas from these lines is commingled. Thence, the commingled gas flows through a line, 24 inches in diameter, to the absorber intake header.

In the absorber intake header, all the gas processed in the Hansford plant is commingled. It then flows through a bank of four absorbers where the hydrocarbon content is reduced in conformity with the requiresments of the sales contract. From here, the gas flows into the absorber outlet header, and then through a bank of scrubbers. Thence, it moves to dehydrators for removal of excess moisture.

Thereafter, the gas flows about 240 feet in a line, 24 inches in diameter, to a meter run of four sales meters, owned and operated by Phillips and located just inside the plant fence.

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The point of sale and delivery to Panhandle is at the outlet of the meters which are connected with a line, 22 inches in diameter, owned and operated by Panhandle.

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(West Panhandle Field) Under another contract, Phillips sells gas to Panhandle at Phillips' Sneed plant in Moore County, Texas. Gas destined for this sale, which is produced from wells in Moore County, comes from acreage in the northeastern part of that County. It flows through a number of lines which connect the wells with line A, and thence to the Sneed plant, all such lines being owned and operated by Phillips.[2] Line A extends about 30 miles from the northeastern corner of Moore County, Texas, to the south central portion of Hutchison County, Texas. This line is normally used by Phillips to move gas from Moore County to Phillips' Rock Creek plant in Hutchison County, but at times the flow is reversed.

That portion of the gas in line A destined for sale to Panhandle enters two lines, 18 inches in diameter, which connect with line A about 11 miles south of line A's northernmost point in Moore County. These two lines connect with a line, 24 inches in diameter, near the east plant fence of Phillips' Sneed plant.

Thence, the gas flows through a bank of two scrubbers in the Sneed plant and into a compressor building containing

[10833]

11 compressors. Here, the pressure is raised from 160 to about 200 pounds per square inch.

The gas then flows to a gas treater where the hydrogen sulphide content is reduced in conformity with the require-

[2]A duplication of letter designation of lines is sometimes used by Phillips; thus, this line A is different from line A, supra, pp. 10-11.

ments of the sales contract. It then flows to a meter run of three sales meters where the volume of gas sold and delivered to Panhandle is measured. By a line, 20 inches in diameter, this gas is carried to the fence between Phillips' Sneed plant and Panhandle's Sneed Compressor Station, where it is delivered to and received by Panhandle in its connecting line, 24 inches in diameter. At this point, title vests in Panhandle, subject to Phillips' right to extract and retain liquid hydrocarbons.

Such gas is commingled by Panhandle with other gas which it produces or purchases from others. After compression of the commingled gas to about 500 pounds per square inch, the gas flows through a line, 24 inches in diameter, owned and operated by Panhandle, to the fence dividing the two plants, and there into a similar line, owned and operated by Phillips.

While title to the gas remains in Panhandle, it flows to a bank of six absorbers, where certain of the heavy hydrocarbons are extracted. Thereafter, the gas flows through a line, 24 inches in diameter, to the Sneed plant fence, and into a similar connecting line, owned and operated by Panhandle.

[10834]

(Panhandle Connections) From the aforementioned points of delivery and connection at Phillips' Hansford and Sneed plants, Panhandle owns and operates a natural-gas pipe-line system extending through the States of Oklahoma, Kansas, Missouri, Indiana, Ohio, and Michigan. By means of this system, Panhandle transports gas purchased from

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Phillips for sale for ultimate public consumption for domestic, commercial, and industrial uses in the States of Oklahoma, Kansas, Missouri, Illinois, Indiana, Ohio, and Michigan, and in Ontario, Canada.

Independent. — Under several contracts, Phillips sells gas to Independent for resale by it to Northern Natural Gas Company (Northern). Such gas is produced by Phillips, or purchased by Phillips from other producers, in that part of the East and West Panhandle Fields lying in Carson, Gray, and Wheeler Counties, Texas. This gas is produced from 590 wells, 422 producing casinghead gas[1] and 168 producing dry gas.

By means of lines, owned and operated by Phillips, such gas flows to Phillips' Gray processing plant in Gray County, Texas, from wells in four different areas: Fairway, in the southwestern part of Gray County; Wheeler booster, in the eastern part of Wheeler County, Texas; an area within two or three miles of the Gray plant; and an area north of Phillips' North plant, about one mile north of the Gray plant.

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The following lines should be noted particularly:

(1) Gas from wells in the Fairway area flows by connecting lines into line A, extending about 18 miles from the southernmost part of the Fairway area to the Gray plant. The diameter of line A is 12 inches at its beginning, increasing later to 16 inches, and

[1]Casinghead gas is natural gas that is produced in association with oil. Casinghead gas, chemically and physically, is no different from natural gas produced from a gas well.

finally to 20 inches for about one-third of its length nearest the Gray plant. Some of the gas in line A flows to Phillips' Pampa processing plant, located about 3½ miles southwest of the Gray plant, through the Pampa plant take-off. Line A runs due northeast from this take-off to the Gray plant, a distance of about 4 miles. One mile up from the Pampa take-off, there is another take-off to Phillips' Bowers processing plant. These two take-offs are the only connections with line A for approximately 4 miles before it enters the Gray plant enclosure, the gas having a constant volume after it flows past the Bowers' take-off.

(2) Gas from wells in the Wheeler booster area flows to the Wheeler booster, where pressure is increased to about 100 pounds per square inch. After commingling, this gas enters the "line from Wheeler Booster", 20 inches in diameter. This line, about 20 miles long, extends northwesterly from the Wheeler booster to the Gray plant. About 5 miles downstream from the Wheeler booster, some of the gas is taken off through a tie-over for processing through Phillips' Lefors plant. About 8 miles downstream from Wheeler booster, there is a connection from Phillips' Red booster where casinghead gas produced in that vicinity is compressed and injected into the line "from Wheeler Booster." Also, lines from some gas wells connect with the "line from Wheeler Booster", the last point of such connection being about 9 miles downstream from the Wheeler booster. From this last point, the gas flows in a constant volume, out of the East Panhandle Field into the West Panhandle Field and into the Gray plant enclosure, a distance of about 10 miles.

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(3) Within a radius of about 3 miles from the Gray plant there are oil wells, the casinghead gas from which flows into the Gray plant enclosure through so-called vacuum lines.

(4) In an area north of Phillips' North plant, located about one mile north of the Gray plant, Phillips produces gas from certain other oil wells. Some of this gas flows to the North plant, and some flows through a line, 20 inches in diameter, which extends to the Gray plant. Some wells are connected to this tie-over line, and gas from there may flow to the North plant or Gray plant, depending on the valve settings on the tie-over line.

At the Gray plant, the casinghead gas from the Gray plant area and from the North plant area enters the intake header at the compressors, where its pressure is raised to that of the dry gas entering the plant. Later, after commingling of this casinghead gas in the discharge header of the compressors, it flows to a common header at the intake to the absorbers.

Within the Gray plant enclosure, the line from the Fairway area connects with the line "from Wheeler Booster." Gas from both lines is commingled and flows into the common header at the intake to the absorbers, where all of the gas entering the Gray plant is commingled.

Thence, the gas flows through a bank of absorbers, where certain of the heavy hydrocarbon content is recovered in conformity with the requirements of the sales contract. The gas then enters a common header at the

outlet of the absorbers. From here, the gas destined for sale to Independent flows through

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a line, 20 inches in diameter, for a distance of about 200 feet to a back pressure regulator. Here, Phillips sells and delivers gas to Independent, and from this point, Independent owns and operates a connecting line, 20 inches in diameter.

Independent's line crosses the Gray plant enclosure, the Gray camp area, Independent's camp area, and then enters Independent's Grayco compressor station area, northwest of the Gray plant. Here, the gas is measured through a "gas purchase meter." The distance from the back pressure regulator to the "gas purchase meter" is 1680 feet. Thereafter, Independent transports the gas a further distance of about 20 miles to a point near Skellytown, Texas, where it is sold by Independent and delivered to Northern.

From here, Northern owns and operates a natural-gas pipe-line system extending through the States of Oklahoma, Kansas, Nebraska, Iowa, and Minnesota. By means of this system, Northern transports the gas purchased by Independent from Phillips, for sale for ultimate public consumption for domestic, commercial, and industrial uses in the States of Oklahoma, Kansas, Nebraska, Iowa, and Minnesota.

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El Paso. — Under a number of contracts, Phillips sells to El Paso gas produced or purchased by Phillips from other producers in two different areas:

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(Panhandle-Hugoton Area) This area comprises approximately 332,000 acres in the West Panhandle and South Hugoton Fields in Sherman, Hartley, Moore, Hutchinson, and Carson Counties, Texas. Gas produced from wells in this area and destined for sale to El Paso is processed by Phillips in its Dumas plant in Moore County, Texas. Among the lines, owned and operated by Phillips, by which such gas flows from the wells to the Dumas plant, the following should be noted particularly:

(1) Line G, 24 inches in diameter, extends over 40 miles from the Rock Creek area, in the southern part of Hutchinson County, in a northwesterly direction to the east-central part of Hutchinson County, Texas, where it interconnects through a tie-over with line A in the vicinity of the Sneed plant,[4] and thence almost due west to a point near the Dumas plant enclosure in the western part of Moore County, where it interconnects with line A-7-3-20, which is 24 inches in diameter.

(2) Gas produced from certain wells in northwestern and southwestern Moore County and southeastern Hartley County, flows into line A-7-3-20. At the aforementioned point where this line interconnects with line G, a system of valves permits the gas to flow east or west in line G, and north or south in line A-7-3-20. Generally, gas flows from this point easterly through line G to the Rock Creek plant, but the flow is often reversed so that gas from the Rock Creek area flows to the Dumas plant.

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[4]See supra, p. 12.

(3) Gas produced from certain wells in southeastern Hartley County and southwestern Moore County and southwestern Moore County flows into line A-7-3-20-44, which is 30 inches in diameter. This line runs easterly to a point near line A-7-3-20, and thence parallels that line to a point about 3 miles southwest of the Dumas plant, where it connects to a header common to both lines. Gas from both these lines, after commingling in the common header, flows at a constant volume to the aforementioned point of connection with line G.

(4) At the point of connection between line G and line A-7-3-20 near the east plant fence line of the Dumas plant, another line, 24 inches in diameter, interconnects and runs into the Dumas plant enclosure.

Here, the gas flows through a bank of three scrubbers and thence to a gas treater where the sulphur content is reduced in conformity with the requirements of the sales contracts. The gas then flows to the absorbers' inlet header and through a bank of six absorbers, where the heavy hydrocarbon content is reduced. The degree of reduction is governed by the sales contracts. The gas then flows into the absorbers' outlet header and through a bank of scrubbers. From here, the gas flows through a line, 24 inches in diameter, for a distance of 900 feet, across the fence line to a meter run, owned and operated by El Paso. The sale and delivery by Phillips to El Paso takes place at the outlet of the meter run.

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(Permian Basin Area) This area lies in Lea County, New Mexico, and in Andrews, Ector, and Crane Counties, Texas. Gas produced from wells in this area, substantially all of which is

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casinghead gas, is processed in the following plants of Phillips: the Eunice plant, located in the Eunice Monument Field, Lea County, New Mexico; the Fullerton plant, located in the Fullerton Field, Andrews County, Texas; the Goldsmith plant, located in the Goldsmith Field, Ector County, Texas; and the Crane plant, located in the McElroy Field, Crane County, Texas.

In each of the foregoing fields, the casinghead gas processed in the four plants is produced from oil wells operated by the producer. The gas is produced along with the oil and both are taken together in flow lines to a separator located on the lease, where the oil and gas are separated. The lease operator owns and operates the wells, the flow lines, and the separators. Generally, flow lines from two or three wells extend to one separator. Sometimes, however, there is a separator for each well, and sometimes eight or more wells have flow lines connected to one separator.

From the separator, the gas flows through a vent line, usually 60 to 300 feet long, owned and operated by the producer. Phillips connects its pipe line to the vent line. It also installs and operates a meter, generally 50 feet to a half-mile from the point of connection.

In each of the four fields, Phillips owns and operates a system of pipe lines through which gas flows to its processing plant which is usually located centrally in the field. Gas flows through such systems by means of the pressure generated in the producing wells.

[10841]

The following additional data respecting the fields and plants should be noted:

(1) Gas processed in the Eunice plant is produced from 514 oil wells and 6 gas wells. As of July 1950, a portion of the gas was purchased by Phillips from 41 producers, and the balance was produced from Phillips' own wells and leases. Such gas flows to the Eunice plant through 8 lines, varying in diameter from 12 to 24 inches.

The gas flows into the plant and passes through a bank of scrubbers, that portion of the gas having a pressure less than 50 pounds per square inch then flowing into a compressor intake header where it is commingled and then passes through the compressors which raise the pressure to 50 pounds per square inch. All of the gas is then commingled in a comon header and passes through a bank of 9 absorbers, where the heavy hydrocarbon content is reduced in conformity with the requirements of the sales contracts.

The gas destined for sale to El Paso flows through a bank of scrubbers and through a line, 24 inches in diameter, for a distance of 370 feet to a meter run of 5 meters, owned and operated by El Paso. Sale and delivery to El Paso take place at the outlet of the meter run.

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(2) Gas processed in the Fullerton plant is produced from 454 oil wells. As of July 1950, a portion of the gas was purchased by Phillips from 42 producers, and the balance was produced from Phillips' own wells or leases. Such gas flows to the Fullerton plant through 5 lines, varying in diameter from 6 inches to 24 inches.

The gas flows into the plant into a common header, where it is commingled. It then flows through a bank of 4 scrubbers and through the compressors

[10842]

where the pressure is raised to 50 pounds per square inch. The gas then flows to a bank of 5 absorbers, where the heavy hydrocarbon content is reduced in conformity with the requirements of the sales contracts.

Gas destined for sale to El Paso flows through a bank of scrubbers and through a line, 24 inches in diameter, for a distance of 600 feet to a meter run of 3 meters, owned and operated by El Paso. Sale and delivery to El Paso take place at the outlet of the meter run.

(3) Gas processed at the Goldsmith plant is produced from 1,600 oil wells and one sour-gas well. As of July 1950, a portion of the gas was purchased by Phillips from 50 producers, and the balance was produced from Phillips' own wells or leases. Such gas flows to the Goldsmith plant through 6 lines, varying in diameter from 20 inches to 26 inches.

The gas flows into the plant, through a bank of 6 scrubbers, into a common intake header, where

the gas is commingled, and through compressors where the pressure is raised to 50 pounds per square inch.

Gas destined for sale to El Paso then flows through a line, 24 inches in diameter, for a distance of 900 feet to a meter run of 3 meters, owned and operated by El Paso. Sale and delivery to El Paso take place at the outlet of the meter run.

Thereafter, the gas flows through a line, 24 inches in diameter, owned and operated by El Paso, to El Paso's compressor station, where the pressure is raised to 600 pounds per square inch. It then flows through a line, 24 inches in diameter, owned and operated by El Paso, back to the Goldsmith plant fence line, and through a meter run of 2 meters and into a line, 24 inches in diameter, owned and operated by Phillips.

[10843]

The gas then flows through an absorber, where the heavy hydrocarbon content is reduced in conformity with the requirements of the sales contracts.

The gas then flows through a line, 24 inches in diameter, owned and operated by Phillips, for a distance of 1,490 feet to a meter run of 2 meters and into a line, 24 inches in diameter, owned and operated by El Paso.

(4) Gas processed in the Crane plant is produced from 732 oil wells. As of July 1950, a portion of the gas was purchased by Phillips from 14 producers, and the balance was produced from Phillips' own wells

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or leases. Such gas flows to the Crane plant through 4 lines, varying in diameter from 20 inches to 24 inches.

The gas flows into the plant, that from one line going through one scrubber, and the remainder through two scrubbers. All the gas then goes into the engine room compressors where the pressure is raised to 50 pounds per square inch.

After commingling in the compressor discharge header, the gas flows to a bank of 2 absorbers, where the heavy hydrocarbon content is reduced in conformity with the requirements of the sales contracts. The gas destined for sale to El Paso then flows through a bank of scrubbers and through a line, 20 inches in diameter, for a distance of about 1130 feet, to a meter run of 2 meters, owned and operated by El Paso. Sale and delivery to El Paso take place at the outlet of the meter run.

(El Paso's Connections) El Paso owns and operates a natural-gas pipe-line system from the aforementioned points of delivery at the Dumas, Eunice, Fullerton, Goldsmith, and Crane plants, extending through the States of New Mexico and Arizona

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and into the State of California. By this system, El Paso transports the gas purchased from Phillips for sale for ultimate public consumption for domestic, commercial, and industrial uses in Texas, New Mexico, Arizona, and California.

Cities Service. — Phillips sells gas to Cities Service under two contracts, in accordance with which the gas sold by Phillips and other lessees of the Edmond Unit is produced by Phillips or such other lessees in the Edmond and West Edmond Fields lying on Oklahoma, Canadian, Kingfisher, and Logan Counties, Oklahoma. All such gas is casinghead gas.

The foregoing sales are also governed by the provisions of a Plan of Unitization of the West Edmond Hunton Lime Unit, an agreement consummated pursuant to an order of the Oklahoma Corporation Commission, dated July 29, 1947.

Phillips and Continental Oil Company own the Edmond plant, located in Oklahoma County, Oklahoma, where some of the gas is processed, including removal of heavy hydrocarbons in conformity with the requirements of the sales contracts. After compression, a portion of the gas is then sold and delivered at the plant fence into two lines, owned and operated by Cities Service. This gas is metered at two meter stations, owned and operated by Cities Service, one 5 miles east of the plant, and the other about 8 miles northeast of the plant.

Phillips and other operators[4] in the field own the Hunton plant where some of the gas is processed, including

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removal of the heavy hydrocarbons in conformity with requirements of the sales contracts. Sale and delivery of

[4]Continental Oil Company, Mid-Continent Petroleum Corporation, Sohis Petroleum Company, Standard Oil and Gas Company, and West Edmond Oil Company.

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the gas to Cities Service take place at the north fence line into a line owned and operated by Cities Service.

Another sale of gas to Cities Service takes place at the Trindle or North plant.

Cities Service owns and operates a natural-gas pipeline system extending from the aforementioned points of delivery through the States of Oklahoma, Kansas, and Missouri. By this system, Cities Service transports gas purchased from Phillips for sale for ultimate public consumption for domestic, commercial and industrial uses. While the major portion of the foregoing gas reaches the States of Kansas and Missouri, the remainder does not leave the State of Oklahoma.

THE ISSUE

Section 2(6) of the Natural Gas Act defines a "natural-gas company" to mean:

> * * * a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale.

"Interstate commerce" is defined by Section 2(7) to mean:

> * * * commerce between any point in a State and any point outside thereof, or between points within the same State but through any place outside thereof, but only insofar as such commerce takes place within the United States.

Section 1(b) of the Act provides, in part, that:

The provisions of this Act shall apply to the trans-

> portation of natural gas in interstate commerce, to the sale in interstate commerce
>
> [10846]
>
> of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, * * *.

Were the foregoing provisions the only relevant ones, Phillips would clearly be a "natural-gas company." For it correctly concedes that the sales involved here are sales in interstate commerce for resale. Nor can there be any doubt that Phillips' movement of that gas from the points of production to the points of sale constitutes transportation in interstate commerce as a matter of constitutional law. Indeed, this is in part implicit in Phillips' concession respecting the sales.

Still another provision of the Act, however, is the hinge upon which the decision here must turn. After specifying those things to which the provisions of the Act shall apply, quoted above, Section 1(b) provides that such provisions:

> * * * shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

The narrow issue is thus posed. On the record here, do the sales and transportation of Phillips come within the

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above prohibition against application of the provisions of the Act to "production or gathering of natural gas"?

The problem is not simple. Neither "production" nor "gathering" is defined in the Act. Nor can we say that the terms

of the statute, standing alone, are so plain and unambiguous as to provide a positive answer. On the contrary, we find it necessary to undertake a review of the background of the problem, including an examination of the legislative history of the Act.

BACKGROUND

The history behind the question here is long and complex, and has become controversial. As we examine this history, we must remember that our responsibility is to administer the law as we find it, whether or not the result agrees with what some would perhaps like it to be.

Legislative History. — Because of its direct relevance,[*] reference should be made at the outset to the Report of

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[*]Immediately under the heading "NECESSITY FOR REGULATION OF NATURAL-GAS COMPANIES", Section 1(a) of the Natural Gas Act provides:

> As disclosed in reports of the Federal Trade Commission made pursuant to S. Res. 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.

the Federal Trade Commission made pursuant to Senate Resolution 83, Seventieth Congress, first session.[7]

[10848]

In surveying the natural-gas industry, that 1935 report drew economic and other distinctions between the situation of "independent producers" and that of pipe-line companies which directly or indirectly controlled production areas, market outlets, or both.[8] Generally, the former were pictured with those needing protection, whereas problems involving the latter created the need for regulation according to the report. While these distinctions may underlie the report's enumeration of "Specific Evils Existing in the Natural-Gas Industry",[9] and its "Summary Statement of Recommendations",[10] they are generally but not specifically helpful here. For example, recommendation number 3 provided:[11]

> *Regulation of interstate gas pipe line companies.*—A Federal regulatory law should be enacted applicable to interstate natural gas pipe lines which transport gas for ultimate sale to and use by the public, regulating contracts for purchase of gas to be transported interstate,[4] or regulating rates for carriage or city gate rates at the end of such transportation, or all of these * * *.

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[4] U. S. v. Knight, 156 U. S. 1, 13; U. S. v. Addyston, 175 U. S. 211, 239.

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[7] Sen. Doc. No. 92, 70th Cong., 1st sess. 1928-1936).

[8] E. g., id., Pt. 84-A, pp. 132-133, 590-591 1936).

[9] Id., pp. 615-616.

[10] Id., pp. 616-617.

[11] Id., pp. 616-617.

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Obviously, this is not determinative here. For the sales involved here would be embraced by only one of the several choices offered by the recommendation.

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We next consider H. R. 11662, 74th Cong., 2d sess., one of the bills predecessor to the Natural Gas Act. In a case involving the scope of the "production and gathering" exemption, the Supreme Court of the United States characterized H. R. 11662 as "substantially similar to the Natural Gas Act", and in ascertaining the intent of Congress, noted:[12]

> In a brief prepared by the Solicitor of the Federal Power Commission for the House Committee on Interstate and Foreign Commerce on the constitutionality of H. R. 11662, an earlier bill substantially similar to the Natural Gas Act, the following appears as part of the analysis of the bill: "The bill makes no attempt to regulate the production or gathering facilities of a natural-gas company, this function being purely local in character, * * *."
>
> The Solicitor of the Federal Power Commission in testifying at the same hearing also answered the following question:
>
> "Mr. Cole [Member of Committee]. Does this bill give anywhere the Commission power over the source of natural gas in the different fields in a manner which we might call comparable to that which your Commission now has over hydroelectric generating plants?

[12]Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U. S. 498, 505, n. 7 (1949).

> "Mr. DeVane [Solicitor of the Federal Power Commission]. It does not; no. It does not attempt to regulate the gathering rates or the gathering business. * * * ."

In expressing the same view elsewhere during the hearing, Mr. DeVane defined "gathering rates" as those "that are paid in the gathering field."[13] Later, when asked what authority the Commission would have over the charge by A, a company owning a gas

[10850]

supply, to B, a company transmitting it to another state, Mr. DeVane said:[14]

> * * * concerning the price paid to the A company, there is no control of the gathering rate; the Commission would not have jurisdiction. That price is fixed by competitive conditions that exist in the field. But it matters not how many different ownerships there may be between the time the gas starts to move in interstate commerce and gets to the city gates. Ownership might change a dozen times — A company sell to B, and B company sell to C — all those rates would be subject to regulation.

He was then asked again whether the Commission could regulate the rate charged by the "supply company", and he responded:[15]

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[13]Hearings Before a Subcommittee of the Committee on Interstate and Foreign Commerce, House of Representatives, on H. R. 11662, p. 28 (1936).

[14]Id. p. 42.

[15]Id. pp. 42-43.

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No; not the price that is paid to the gatherer, to the man that produces it; that is binding if the transaction is at arm's length. If the transaction is not at arm's length, of course, its reasonableness may be inquired into, under the decisions of the Supreme Court.

We turn now to the Committee Report on H. R. 6586, 75th Cong., 1st sess., the bill which became the Natural Gas Act, which report was undoubtedly influenced by hearings held on

[10851]

H. R. 4008 and H. R. 11662.[16] After quoting that part of Section 1(b)

[10852]

specifying what the Act shall not apply to,[17] the Committee said that these words "are not actually necessary, as the matters specified therein could not be said fairly to be covered by the language affirmatively stating the juris-

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[16]H. Rep. No. 709, 75th Cong., 1st sess. (1937). The Senate Committee did not hold separate hearings, but adopted the report of the House Committee. Sen. Rep. No. 1162, 75th Cong., 1st sess., p. 1 (1937).

The legislative history is contained in three committee hearings on proposed natural-gas legislation preceding adoption of the Natural Gas Act. The first of these was in 1935, House Hearings on H. R. 5423 (74th Cong., 1st sess.); the second, in 1936, House Hearings on H. R. 11662 (74th Cong., 2d sess.); the third, in 1937, House Hearings on H. R. 4008 (75th Cong., 1st sess.). H. R. 4008 later became H. R. 6586, which was subsequently passed as the Natural Gas Act.

In the hearings on H. R. 4008, there are repeated references to the testimony in the hearings on H. R. 11662 (pp. 1, 23, 32, 39, 41, 81, 108), and to hearings on H. R. 5423 (pp. 61, 84). Likewise, in the hearings on H. R. 11662, similar references are made to testimony given in the hearings on H. R. 5423 (pp. 10, 25, 35, 46, 81, 112). It seems clear, therefore, that the record of all these hearings was considered in the enactment of the Natural Gas Act. Moreover, the members of the House Committee, with few exceptions, were the same during the three-year period.

[17]Quoted **supra**, pp. 25-26.

diction of the Commission * * *."[18] There follows an explanation by the Committee of how the "local distribution" exemption is surplusage, but none as to the "production or gathering" exemption.

It might be argued that this indicates a Committee understanding that, in the process of production and gathering, there can be no transportation of gas in interstate commerce and no sale in interstate commerce for resale. But it would be unreasonable to assume that the Committee meant that "production or gathering" is confined to something other than transportation in interstate commerce and sale in interstate commerce for resale. For gathering plainly includes the function of transporting gas as it is collected from the wells, whether or not the movement is interstate. And Mr. DeVane had given repeated testimony, with which no one took issue, that the price paid to producers and gatherers would not be subject to Commission regulation."

[10853]

This explanation would be in keeping with the Federal Trade Commission's portrayal of the natural-gas industry as having distinct functional divisions. For example, after noting the legal difficulties arising in efforts to solve problems in the production, transportation, and distribution phases, the report stated:[20]

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[18]H. Rep. No. 709, p. 3.

[19]See supra, pp. 29-30.

[20]Sen. Doc. No. 92, 70th Cong., 1st sess., Pt. 84-A, p. 602 (1936).

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So, broadly speaking, we have in natural gas a situation which no matter how fully and properly integrated will present at both ends problems which are either entirely of local concern, or which are of both local and general public concern, and in between a field of interstate transportation where only through the exercise of Federal jurisdiction can proper solution be obtained.

Relevant here also is the fact that the Committee report on H. R. 6586 mentioned, as an example of sales for resale in interstate commerce not subject to State regulation, "sales by producing companies to distributing companies", adding that, "The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the States may not act."[21]

[10854]

It should be noted first that the example of sales by "producing" companies to distributing companies may have been bottomed on the facts involved in the case cited by the Committee, *Missouri v. Kansas Gas Co.*, 265 U. S. 298, holding a State powerless to regulate a sale for resale to a distributing company, since the sale and delivery were inseparable parts of the transaction in interstate commerce. There the selling company was a "producing" company which transported the gas interstate to the point of sale to the distributing company. Secondly, the Court has never held that a State may not regulate a sale for resale in interstate commerce made in the process of production and

[21]H. Rep. No. 709, 75th Cong., 1st sess., p. 2 (1937).

gathering. And recently, as we later point out, the Court made it clear that a State suffers no constitutional disability to regulate, in the interest of conservation, by fixing a minimum well-head price to be charged by producers even in sales for resale in interstate commerce."

Finally, the Supreme Court of the United States has said that, "The legislative history of this Act is replete with evidence of the care taken by Congress to keep the power over the production and gathering of gas within the states."[32] And we think it significant here that the Court footnoted the foregoing

[10855]

sentence with a reference to the failure by Congress to adopt either of two then pending identical bills which, among other things, would have applied to "the procurement of natural gas for the purpose of its transmission through pipe lines", giving the Commission jurisdiction over all facilities for such "procurement."[33] The Court's note concludes by observing that, "instead Congress enacted §1(b) with its specific exemptions from the coverage of the Act."

Administrative Actions. — In no case in its history has this Commission held that the Act gives it jurisdiction over a company solely by reason of its movement of gas in interstate commerce or sales in interstate commerce for resale,

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[31]See infra, pp. 52-56.

[32]Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U. S. 498, 509-512 (1949).

[33]Id. n. 16.

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where such movement or sales take place in the process of production or gathering.

Indeed, about two years after enactment of the Act, the Commission had before it in the *Columbian Fuel Corporation* case the question whether it had jurisdiction over a company engaged solely in the production and gathering of natural gas, making sales of such gas in interstate commerce.[33]

[10856]

The Commission said that:[34]

> Clearly, Congress thought it was closing the gap in regulation of the natural-gas industry by providing Federal Power Commission regulation of companies whose main function was to transport natural gas through interstate pipe lines and sell gas so transported at city gates for resale to ultimate consumers.
>
> The companies to be subjected to regulation were conceived of as "pipe line" companies, and it was assumed that production and gathering would enter the field of regulation only to the extent that the "pipe line" companies, either directly or through affiliates, controlled the production or gathering of the gas so transported.

The sales there involved took place at the termini of the Columbian's gathering lines, with a portion being delivered from its compressor station adjacent to some of

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[33] Re Columbian Fuel Corporation, 2 F. P. C. 200, 203 (1940).

[34] Id. p. 207.

the producing areas. The Commission, with one Commissioner dissenting, denied jurisdiction, concluding:[35]

> * * * that it was not the intention of Congress to subject to regulation under the Natural Gas Act all persons whose only sales of natural gas in interstate commerce, as in this case, are made as incident to and immediately upon the completion of such person's production and gathering of said natural gas and who are not otherwise subject to the jurisdiction of this Commission.

It is worthy of note that four of the then Commissioners were also in office when the Act was passed and when predecessor bills

[10857]

were under consideration in the Congress. In fact, one of those Commissioners had presented testimony for the Commission before the House Committee.

We turn now to the Commission's action in the *Interstate* case.[36] Statements made in judicial review of this case, which we shall discuss later,[37] precipitated much of the controversy which finds its culmination in the instant proceeding.

Following a judicial determination that the Public Service Commission of Louisiana had no jurisdiction over Interstate's business,[38] Interstate successfully contending

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[35]Id. p. 208. See also Re Billings Gas Company, 2 F. P. C. 288 (1940).

[36]Re Interstate Natural Gas Co., Inc., 3 F. P. C. 416 (1943).

[37]See infra, pp. 47-49.

[38]Interstate Natural Gas Company v. Louisiana Public Service Commission, 33 F. Supp. 50; 34 F. Supp. 980 (D. C. La. 1940).

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that over 99% of its total sales were sales in interstate commerce, this Commission asserted jurisdiction over certain sales by Interstate, on complaint of the Louisiana Commission. Admittedly a "natural-gas company" by reason of operations other than the disputed sales, Interstate produced and gathered gas of its own and purchased gas from other companies in the Monroe Field. Such purchased gas was sold to Interstate subsequent to the completion of gathering by the sellers. This purchased gas was then "transported" by Interstate and commingled with Interstate's own production. Interstate then, after the completion of gathering, "transported" the commingled gas to points where it made sales and deliveries to three companies."

[10858]

Following judicial affirmation of the Commission's order in the *Interstate* case in 1946," the Commission handed

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"Re Interstate Natural Gas Co., Inc., 3 F. P. C. 416, 420 (1943).

"Interstate Natural Gas Co., Inc. v. Federal Power Commission, 156 F. 2d 949 (C. A. 5, 1946), affirmed, 331 U. S. 682 (1947).

Soon thereafter, the first of a series of bills was introduced in Congress to place varying express limits on the Commission's jurisdiction. Common to most were differing provisions to foreclose assertion of Commission jurisdiction over sales by producers and gatherers.

These included: H. R. 2185, H. R. 2235, H. R. 2292, H. R. 2569, S. 734 and S. 2757, all 80th Cong., 1st sess. (1947); H. R. 4051, 80th Cong., 2d sess. (1948); H. R. 79, H. R. 982, H. R. 1758, H. R. 5703, S. 1498, S. 1873, all 81st Cong., 1st sess. (1949); H. R. 4099, 81st Cong., 2d sess. (1950); and H. R. 3285, 82nd Cong., 1st sess. (1951).

Among these, hearings were held on: H. R. 2185, H. R. 2235, H. R. 2292, H. R. 2569, H. R. 4051, H. R. 79, H. R. 1758, H. R. 982, S. 734, and S. 1498. See Hearings before the Committee on Interstate and Foreign Commerce, House of Representatives, on H. R. 2185, H. R. 2235, H. R. 2292, H. R. 2569, and H. R. 2566, 80th Cong., 1st sess. (1947); Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce, United States Senate, on S. 734 and

down decisions in several other cases which should be mentioned here.

[10859]

In the *Fin-Ker* case, the Commission had before it the question as to jurisdiction over a company whose "natural gas operations are confined to the production and gathering and the sale upon completion of gathering of such produced gas."[33] After distinguishing its decision in the *Interstate* case, the Commission held that:[34]

> * * * where a person not otherwise subject to the jurisdiction of the Commission, is engaged in production or gathering of natural gas exclusive of its transportation in interstate commerce and makes arm's-length sales and deliveries of natural gas in interstate commerce as an incident to or upon completion of that person's production or gathering, the provisions of the Natural Gas Act do not apply.

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[33] **Re The Fin-Ker Oil and Gas Production Company,** 6 F. P. C. 92, 94, (1947). See also **Re Kansas-Nebraska Natural Gas Company, Inc.,** 6 F. P. C. 664 (1947); and **Re R. J. and D. E. Whelan,** 6 F. P. C. 672 (1947).

[34] **Id.** p. 98.

S. 1028, 80th Cong., 1st sess. (1947); Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce, United States Senate, on S. 4051, 80th Cong., 2d sess. (1948); Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce, House of Representatives, on H. R. 79, H. R. 1758, and H. R. 982, 81st Cong., 1st sess. (1949); Supplemental Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce, House of Representatives, on H. R. 79, H. R. 1758, and H. R. 982, 81st Cong., 1st sess. (1949); and Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce, United States Senate, on S. 1498, 81st Cong., 1st sess. (1949).

During the second session of the Eighteth Congress, H. R. 4051, the so-called Moore-Rizley bill, was passed by the House, but not the Senate. Later, H. R. 1758, the House version of the so-called Kerr bill, was passed by both the Senate and the House during the Eighty-first Congress, but was vetoed by the President on April 15, 1950. See H. Doc. No. 555, 81st Cong., 2d sess. (1950); 96 Cong. Rec. 5304 (1950).

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Shortly thereafter, the Commission decided *The Chicago Corporation* case.[11] Chicago was engaged in purchasing and producing gas from oil and gas wells, gathering that gas to a

[10860]

common point within the field at the inlet of its processing plants, and, after processing, in making sales at the tailgate of such plants. It also made some deliveries directly from wells and well lines. In one instance, deliveries were made by means of a 4-mile line, 6 inches in diameter, owned and operated by another company, dehydration being accomplished immediately prior to delivery and sale.

Pointing to its holding in the *Fin-Ker* case that it had no jurisdiction over sales made "as an incident to or upon completion of" gathering, the Commission said that Chicago's operations did not constitute it a "natural-gas company", stating that Chicago:[12]

> * * * has no transmission facilities. It is a company engaged primarily in the production, gathering and processing of natural gas and the delivery and sale of such gas at the outlets of cycling plants or direct from wells into field or transmission lines owned by others.

In July, 1947, the Commission submitted to the Chairman of the House Committee on Interstate and Foreign Commerce its unanimous report on H. R. 4099, 80th Cong., 1st sess. The Commission urged its enactment "to make

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[11] Re The Chicago Corporation, 6 F. P. C. 98 (1947).

[12] Id. p. 105.

it perfectly clear that independent producers and gatherers of natural gas are exempt from the Natural Gas Act."[37]

[10861]

About a month later, the Commission, with one Commissioner dissenting, publicly announced by rule that it would:[38]

> * * * construe the exemption contained in Section 1(b), to the effect that the provisions of the Act shall not apply to the "production or gathering" of natural gas, as including arm's-length sales of natural gas by independent producers and gatherers, made during the course or upon the completion of production and gathering.

In adopting the rule, the Commission presented a review of prior developments in the matter:[39]

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[37]Hearings before a Subcommittee of the House Committee on Interstate and Foreign Commerce on H. R. 79 and H. R. 1758, 81st Cong., 1st sess., p. 5 (1949).

[38]Order No. 139, August 7, 1947, Docket No. R-106.

[39]That review read, in part, as follows: "For the reasons stated below, it seems appropriate and desirable at this juncture for the Commission to adopt and promulgate the rule contained herein, which is designed to relieve any existing uncertainty regarding the Commission's position that it will not seek to assert jurisdiction over the sale of natural gas to interstate pipe lines by independent producers or gatherers.

"Following the release in March 1947 of the staff report in Docket No. G-580 on this subject, entitled 'Section 1(b) of the Natural Gas Act with Reference to Production and Gathering,' the Commission consistently therewith on May 27, 1947, issued a notice of proposed rule making in this matter. At that time, since there were prevalent many expressions of uncertainty as to the Commission's interpretation of Section 1(b) of the Act with reference to the status of independent producers and gatherers of natural gas, and as to its intentions with respect thereto, it seemed evident that a formal administrative rule was necessary to affirm our belief that it was the intent of Congress to exempt such independent producers and gatherers when it enacted the Natural Gas Act in 1938.

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* * * so that there may be no basis for misunderstanding or continuing expressions of fear and uncertainty regarding this matter, which is non-controversial. The Commission gives its assurance to independent producers and gatherers of natural gas that they can sell at arm's-length and deliver such gas to interstate pipe lines and can enter into contracts for such sale without apprehension that in so doing they may become subject to assertions of jurisdiction by the Commission under the Natural Gas Act.

The rule herein has this specific purpose and is issued at this time because the Congress has not yet reaffirmed such exemption by amending the Act. It is also our intention, in keeping with the position here-

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"During the first session of the 80th Congress which adjourned on July 27, 1947, various bills regarding this matter, as well as other important proposals for amending the Natural Gas Act, were introduced and considered by the Congress. At the hearings on these bills before the Senate and House Committees on Interstate and Foreign Commerce, the Commission likewise stated its view that independent operators who produce or gather natural gas and sell it at arm's-length to natural-gas companies subsequently transporting such natural gas in interstate commerce are exempt from the provisions of the Natural Gas Act.
Continued Next Page

[10862]

"(Footnote continued from preceding page)

"Reference also was made at these hearings to the pending case before the Supreme Court of the United States in **Interstate Natural Gas Company, Inc. v. Federal Power Commission.** The subsequent decision of the Court on June 16, 1947, addressed to the particular circumstances of that case which involved the operations of a natural-gas company subject to the Act, immediately became the basis for diverse interpretations and agitations by interested parties, as to its implications regarding the jurisdictional status under the Act of independent producers and gatherers.

"In view of these circumstances, the Commission urged the immediate adoption of H. R. 4099, the specific and sole purpose of which was to make entirely clear the exemption of the independent production and gathering of natural gas from the provisions of the Natural Gas Act. This proposed amendment, however, was not enacted during the closing days of the session of the Congress which has just ended."

tofore taken, to continue to recommend to the Congress that it take appropriate clarifying legislative action regarding this matter.

[10863]

In 1948, the Commission handed down three additional decisions, consistent with the foregoing rule and the prior decisions of the Commission.[40]

In the light of the President's veto of H. R. 1758[41] and of the pendency of the instant proceeding, the Commission in 1950 rescinded Order No. 139 which adopted the rule referred to above.[42]

[10864]

Judicial decisions. — Of all the foregoing Commission actions, only that in the *Interstate* case has been the subject of judicial review. But we think the account here should include reference to several other holdings as well in order to complete the background.

In 1942, the United States Court of Appeals for the District of Columbia sustained the authority of the Commission to issue a *subpoena duces tecum* for certain company records in *Peoples Natural Gas Company* v. *Federal Power Commission.*[43] In so doing, as to certain sales made by Peoples at its compressor station in Pennsylvania to

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[40]**La Gloria Corporation**, 7 F. P. C. 349 (1948);
Superior Oil Company, 7 F. P. C. 627 (1948);
General Crude Oil Company, 7 F. P. C. 1024 (1948).

[41]See **supra**, n. 32, p. 38.

[42]Order No. 154, July 11, 1950.

[43]127 F. 2d 153, reh. den., 127 F. 2d 157 (1942), cert. den., 316 U. S. 700 (1942).

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an affiliated company which immediately transported the gas to New York for sale to others for resale, the Court concluded that Peoples' sales were within the coverage of the Act. The Court added that, "We cannot disregard the plain language of the statute because the Commission at one time interpreted it narrowly", citing our decision in the *Columbian* case."

While we recognize that this suggests some degree of disapproval of our *Columbian* decision, certain circumstances should be noted respecting the holding in the *Peoples* case. The Court's holding was based on the pleadings and in the absence of findings by the Commission respecting the sales involved as to any impact

of the Act's exemption of production and gathering. It also seems to us that the Court's opinion does not explore into any such impact. Finally, after hearings, the Commission took no action to assert jurisdiction, and in 1946 it dismissed the proceeding, the Commission having been informed that the sales in question had been discontinued."

Passing reference should next be made to certain comments in the opinion of the Supreme Court of the United States in *Hope Natural Gas Company* v. *Federal Power Commission*." After characterizing the "primary aim" of the Act as the protection of "consumers against exploitation

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"127 F. 2d at 155.

"Re Peoples Natural Gas Company, 5 F. P. C. 761 (1946).

"320 U. S. 591 (1944).

at the hands of natural gas companies", the Court noted that the reports of the Federal Trade Commission had disclosed acquisition by a handful of holding companies of a majority of the pipe-line mileage and an increasing percentage of the natural-gas supply, and it then said:"

> State Commission, independent producers, and communities having or seeking the service were growing quite helpless against these combinations. These were the types of problems with which those participating in the hearings were preoccupied. Congress addressed itself to those specific evils. [Footnotes omitted.]

[10866]

The position of the "independent producers" is with those needing assistance, not with those creating the evils to be corrected by remedial regulation. Later, the Court referred to the provisions in the Act respecting State conservation measures, and observed:"

> It is hardly necessary to add that a limitation on the net earnings of a natural gas company from its interstate business is not a limitation on the power of the producing state either to safeguard its tax revenues from that industry or to protect the interests of those who sell their gas to the interstate operator.

Soon thereafter, in *Colorado Interstate Gas Co.* v. *Federal Power Commission*, the Supreme Court held that the exemption of production and gathering in Section 1(b) does not preclude the Commission in fixing rates from

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"320 U. S. at 610.

"320 U. S. at 614.

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"reflecting the production and gathering facilities of a natural gas company in the rate base and determining the expenses incident thereto for the purposes of determining the reasonableness of rates" subject to the Commission's jurisdiction." And in so holding the Court expressly recognized that such treatment of "producing properties and gathering facilities has of course an indirect effect on them."[10]

The Court reached the foregoing conclusion after observing that Section 1(b) certainly:[11]

[10867]

> * * * precludes the Commission from any control over the activity of producing or gathering natural gas. For example, it makes plain that the Commission has no control over the drilling and spacing of wells and the like. It may put other limitations on the Commission.

After the United States Court of Appeals for the Fifth Circuit had sustained in sweeping terms our order in the *Interstate* case,[12] the Court's judgment was affirmed on review by the Supreme Court of the United States.[13] After concluding that the sales involved were sales "in interstate commerce", the Supreme Court turned to Interstate's

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[9]324 U. S. 581, 603 (1945).

[10]Ibid.

[11]Ibid.

[12]Interstate Natural Gas Company v. Federal Power Commission, 156 F. 2d 949 (1946).

[13]Interstate Natural Gas Company v. Federal Power Commission, 331 U. S. 682 (1947).

contention that such sales were within Section 1(b)'s exemption of production and gathering, and consequently not within the Commission's power of regulation. It said that the purpose of that restriction was:[16]

> * * * to preserve in the States powers of regulation in areas in which the States are constitutionally competent to act. * * * Clearly, among the powers thus reserved to the States is the power to regulate the physical production and gathering of natural gas in the interests of conservation or of any other consideration of legitimate local concern.[17] It was the intention of Congress to give the States full freedom in these matters.

[17]Colorado Interstate Gas Co. v. Federal Power Commission, 324 U. S. 581, 602-603 (1945).

[10868]

And the Court continued:[18]

> Thus, where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach.[19] But such conflict must be clearly shown. Exceptions to the primary grant of jurisdiction in the section are to be strictly construed. It is not sufficient to defeat the Commission's jurisdiction over sales for resale in

[16]331 U. S. at 690.

[18]331 U. S. at 690-691.

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interstate commerce to assert that in the exercise of the power of rate regulation in such cases, local interests may in some degree be affected.

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[9]The Federal Power Commission has not asserted jurisdiction over all sales taking place in the natural gas fields even though in interstate commerce for resale for ultimate public consumption. **In the Matter of Columbian Fuel Corp.**, 2 FPC 200; **In the Matter of Billings Co.**, 2 FPC 288. We express no opinion as to the validity of the jurisdictional tests employed by the Commission in the cases.

But the foregoing remarks concerning the effect of the Act's exemption of production and gathering were, two paragraphs later, rendered apparently unnecessary to the Court's decision. For, in harmony with the facts pointed out by the Commission in its decision, and in connection with Interstate's

[10869]

claim that the sales were exempt as a "part of the gathering process", the Court held:[10]

> By the time the sales are consummated, nothing further in the gathering process remains to be done.

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[10]311 U. S. at 692.

It is appropriate here to note that, in its brief filed in the Supreme Court in the **Interstate** case, the position of the Commission was expressly set forth in the statement that, "The Commission recognizes that the legislative history of the Act indicates that the gathering rates are intended to be exempt if the transaction is at arm's-length. From this, the Commission assumes that where a sale is made at arm's length by one who is engaged in production and gathering exclusive of transportation and is not otherwise a natural gas company, and the sale is closely connected with and a part of local gathering, it is exempt as 'production and gathering of natural gas'." Brief for Respondent, Federal Power Commission, filed in **Interstate Natural Gas Company, Incorporated v. Federal Power Commission,** et al., in the Supreme Court of the United States, No. 735, October Term, 1946, p. 34.

Elsewhere in that brief, the Commission made it clear that, on the basis of its findings, Interstate was engaged in "transporting" the gas **after completion of gathering and prior to the sales** (Emphasis supplied). **Id.**, pp. 29-33.

More significant here, however, are later statements by the Supreme Court in its opinion in *Federal Power Commission v. Panhandle Eastern Pipe Line Co.*, which directly interpreted the production and gathering exemption. The Court there held beyond Commission control the transfer and disposition by Panhandle of certain gas leases, despite the fact that Panhandle had used the reserves under such leases to obtain certificates of public convenience and necessity and despite their inclusion in its rate base."

[10870]

Refusing to ascribe a narrow meaning to Section 1(b)'s exemption of production and gathering, the Court held leases to be "an essential part of production."" And it said that, while certain sections of the Act:"

> * * * bear evidence of congressional consideration of the relationship of production properties to other elements of the natural-gas business, they do not even by implication suggest to us an extension of the regulatory provisions of the Act to cover incidents connected with the production or gathering of gas.

Furthermore, the Court pointed out that it had permitted the Commission to consider the cost of production and gathering for rate-making purposes in the *Colorado Interstate* case. Then the Court added that this "is not a precedent

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"337 U. S. 498 (1949).

"337 U. S. at 505.

"337 U. S. at 506.

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for regulation of any part of production or *marketing*.'"[10] Speaking of the evidence in the legislative history of the care taken by Congress to keep the power over the production and gathering of gas within the States, the Court observed:[11]

[10871]

> This probably occurred because the state legislatures, in the interests of conservation, had delegated broad and elaborate power to their regulatory bodies over all aspects of producing gas. * * * Congress enacted this Act after full consideration of the problems of production and distribution. It considered the state interests as well as the national interest. It had both producers and consumers in mind. Legislative adjustments were made to reconcile the conflicting views.

The Court further pointed out that, as it had held the transfer of undeveloped leases an "activity related to the production and gathering of natural gas" beyond the coverage of the Act, the authority of the Commission "cannot reach the sales" of such leases.[12] In concluding, the Court said that if the Commission is of the opinion that it should have such power, it is authorized to call the attention of Congress to that fact. To this statement, the Court appended a note saying that the Commission had, on April 28, 1948,

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[10]337 U. S. at 506 (emphasis supplied). Marketing embraces the making of sales. The verb "market" is defined as follows: To deal in a market; to buy or sell.—*v.t.* To expose for sale in a market; to traffic in; to sell in a market; by extension, to sell." Webster's New International Dictionary of the English Language (2d ed., 1939).

[11]337 U. S. at 512-513.

[12]337 U. S. at 515.

submitted to Congress reports on its Natural Gas Investigation, Docket No. G-580. And significantly, the Court quoted the following:

> No reasonable basis is found in the Act or its legislative history for a conclusion that, although the "activities" of production and gathering are exempt under Section 1(b), sales of natural gas which are made at arm's length by producers and gatherers who do not thereafter transport it in interstate commerce may be regulated. Unless such a distinction is specifically disclaimed, doubts and uncertainties

[10872]

> will continue to be felt and expressed regarding the possible jurisdiction under the Natural Gas Act of those who only produce and gather natural gas and then sell it to others transporting such gas in interstate commerce. Pp. 38-39.
>
> In view of the present unsettled state of this matter, it is desirable, as the Commission has heretofore recommended, that the Congress should adopt appropriate amendatory legislation to make it clear that independent producers or gatherers of natural gas, and their sale thereof to interstate pipe lines, are not subject to the provisions of the Natural Gas Act. Such action will confirm what clearly appears to have been the original intent of Congress when it enacted the Natural Gas Act in 1938. Pp. 40-41. (Paragraphs from the report subscribed to by Commissioners Smith and Wimberly.)"

"337 U. S. at 516-517, n. 25.

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Integral to the portrayal of background is a reference to *Cities Service Gas Co.* v. *Peerless Oil and Gas Co.*[4] In considering this decision, it should be remembered that Section 1(b) determines the coverage of the Natural Gas Act, "and does so in the light of the situation existing at the time."[5] Also, it is settled that the Act was meticulously drawn "to take in only territory which this Court had held the states could not

[10873]

reach."[6]

We know of no decision of the Supreme Court, either before or since the passage of the Act, denying that a State has constitutional power to regulate a sale for resale in interstate commerce made in the process of production or gathering. Hence, in relation to contentions that such a denial must be implied from decisions like *Missouri* v. *Kansas Gas Co.*,[7] the *Cities Service* case assumes especial importance, as we shall now see.

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[4]340 U. S. 179 (1950).

[5]**Panhandle Eastern Pipe Line Company v. Public Service Commission,** 332 U. S. 507, 516 (1947).

[6]332 U. S. at 519; H. Rep. No. 709, 75th Cong., 1st sess., p. 2 (1937).

In the cited **Panhandle** case, the Court referred to the impotence of States to act in relation to sales for resale "by interstate carriers" as the sales sought to be reached by Section 1(b). 332 U. S. at 516.

Later, in **Federal Power Commission v. East Ohio Gas Company,** 338 U. S. 464, 472-473 (1950), the Court in describing the gap which Congress intended to close, referred to its decisions holding that State regulatory power could not reach "high-pressure trunk lines" and sales for resale.

[7]283 U. S. 298 (1924). There the Court held that a State lacked constitutional power to regulate transportation and sale for resale in interstate commerce by an interstate transporter to a distributing company, such transaction being national, not local in character.

The Court there sustained an exercise of State power, in the interest of conservation, to fix a minimum price at the well-head for gas produced within its borders and sold in interstate commerce. In reaching this conclusion despite the absence of any enabling federal legislation, the Court made it clear that the State suffered no constitutional disability under the Commerce Clause to undertake this sort of price regulation over producers,

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saying:"

> * * * in a field of this complexity with such diverse interests involved, we cannot say that there is a clear national interest so harmed that the state price-fixing orders here employed fall within the ban of the Commerce Clause.

This decision thus makes it clear that the States do have constitutional power to regulate at least sales at the well head for resale in interstate commerce in the interests of conservation. While the Court did not decide the limits of State power to regulate sales in interstate commerce made in the process of production or gathering, it does remove any doubt that might have existed before whether *all* such sales are constitutionally forbidden to State regulation.

"340 U. S. at 188. Before reaching this conclusion, the Court earlier cited **Cooley v. Port Wardens,** 12 How. 299 (U. S. 1851), and said, "It is now well settled that a state may regulate matters of local concern over which federal authority has not been exercised, even though the regulation has some impact on interstate commerce." P. 186.

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Another point we think worthy of note. In the *Interstate* case, the Court asserted that this Commission's jurisdiction does not attach to sales technically consummated in interstate commerce, where they are "made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions * * *."[6] Then, the Court added, "But such conflict must

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be clearly shown." Some view this as meaning that, by the Natural Gas Act, Congress has occupied this field with respect to each of such sales except where the indicated conflict is clearly shown.

Yet in sustaining State regulatory power over certain of such sales in the *Cities Service* case, the Court pointed to Appellant's failure to contend that the State orders there involved conflicted with the Federal authority asserted by the Natural Gas Act, and said:[7]

> Whether the Gas Act authorizes the Power Commission to set field prices on sales by independent producers, or leaves that function to the states, is not before this Court.

Taking all of this together, we cannot view the *Interstate* decision, despite the language used, as holding that

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[6] See supra, p. 48.

[7] 340 U. S. at 188-189.

the rate jurisdiction of this Commission attaches to all interstate sales made in the course of production and gathering, except where the indicated conflict is clearly shown.

In its *Cities Service* opinion, the Court nowhere referred to its opinion in the *Interstate* case. The question whether "the Gas Act authorizes the Power Commission to set field prices on sales by independent producers, or leaves that function to the

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states", we think is a question left undecided by either of those decisions.

IS PHILLIPS A "NATURAL-GAS COMPANY"?

But for the exemption of production and gathering in Section 1(b), as already noted, Phillips would be a "natural-gas company." It concedes, and on the record here it could not deny, that the sales involved are sales "in interstate commerce of natural gas for resale for ultimate public consumption" within Section 1(b)'s affirmatively stated coverage of the Act when considered independently of the exemption of production and gathering. Also, its operations clearly include the "transportation of natural gas in interstate commerce", similarly within that affirmatively stated coverage when considered independently of the exemption of production and gathering.

The single question, therefore, is whether such sales and such transportation come within Section 1(b)'s ban

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prohibiting application of the Act's provisions to "production or gathering."

In addition to an analysis of the record and briefs in this case, we have again made an extensive review of the provisions of the Act, its history, our own decisions during 13 years of administering the Act, and relevant judicial decisions. From that analysis and review, we have again concluded that we have no jurisdiction over transportation or sales made in the process of production or gathering.

We believe that Congress, by the exemption of production and gathering, intended to deny this Commission jurisdiction over

[10877]

the business of producing and gathering. While the various evidences of the legislative intent are not always clear, by far the preponderance of that evidence supports the conclusion we have reached. For example, there is no denying the impact of the repeated testimony by Mr. DeVane that the proposed legislation would not attempt to regulate producing or gathering rates or the gathering business. In addition, it should be noted that the "gathering business" necessarily includes at least the movement of gas, whether it be designated "transportation" or given some other label.

Likewise, the legislative history of the Act, beginning with the reports of the Federal Trade Commission, persuades us that the evils which Congress sought to correct by the regulation provided for in the Act did not encompass the activities of companies whose operations are confined

to production and gathering, including the movement and sale of gas as a part of that business.

Furthermore, the Supreme Court in construing the production and gathering exemption has left no doubt that we are precluded from regulating "incidents connected with" and any "activity related to production and gathering."[11] Therefore, where the facts concerning interstate sales and transportation constitute them such "incidents" or "activities", we shall hold them to be a part of the process or business of production and gathering, exempted by Section 1(b). Otherwise, we would encroach

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upon the area of control which Congress reserved to the States by that Section.

The facts of this case convince us that we have no jurisdiction over Phillips. We find that its operations, so far as relevant, consist of production and gathering, or incidents of or activities related to these functions thus requiring their inclusion within the Act's exemption.

The production and gathering of gas do not constitute an end in itself, but a means to an end. Excepting use by the operator, that end usually is the sale of the gas and of products extractable by processing. Such processing may include operations undertaken to make the gas salable, or other operations to obtain the extractable products, or a combination of both.

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[11]Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U. S. 498, 506, 515 (1949).

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Phillips' processing at its various plants includes operations of both types. Such is the location of these plants in relation to the producing areas that we find the movement of gas by Phillips to those plants to constitute gathering within the meaning of Section 1(b). In each instance, the gas is collected to a common point in or relatively near the plant where processing occurs to make the gas salable or to recover extractable products or both. The movement of the gas through each plant we find to be a part of Phillips' gathering business, or at least exempt as an incident of or an activity related to its gathering process. And we reach this same conclusion with respect to the relatively short lines leading from the point where processing is partly or finally completed, to the

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various points where sale or delivery or both take place.

In reaching these conclusions, we are fully aware that a number of the lines leading to the plants are of large diameter and that these include some of considerable lengths. We are also aware that, for the last several miles before reaching the plant, gas in some of these lines moves at a constant volume, there being no connections into or out from the lines. Even if such segments were not "gathering" lines, we would be compelled to hold them exempt as incidents of gathering. But in our view all of these lines leading to the plants serve the function of gathering."[73] Since that is so, all movement of gas through these lines and the lines themselves are exempt.

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[73] Cf. Re East Ohio Gas Co., F. P. C. Opinion No. 158, Docket Nos. G-115, G-399, G-400, and G-401, issued November 7, 1947, mimeographed edition, pp. 6-7.

In this connection, it should not be overlooked that Phillips' natural-gas operations are complex, widespread, and numerous. But the size of its operations certainly provides no basis for applying principles more restrictive than those which are applicable to much smaller companies.

[10880]

We have held that Phillips' gathering continues to the processing plants in each case. The gas then moves through the plants a short distance to points where the sales are consummated, such movement being a part of Phillips' gathering business, or at least an exempt incident of its gathering process. Such sales, the end product of production and gathering, we find likewise to be a part of Phillips' gathering business, or at least an exempt incident thereof.

Parenthetically, it may be observed that the Supreme Court held in the *Panhandle* case that the transfer of undeveloped leases is an "activity related to production and gathering" beyond the coverage of the Act, and that the authority of the Commission "cannot reach the sales."[73] In other words, the Act forbids our regulation of the sale of undeveloped leases, in effect the sale of gas in place. The sales of gas involved here, we hold are activities "related to production and gathering", likewise placed beyond our control by the exemption in Section 1(b). We think the sales of gas made here as the end product of production and gathering are even more closely related to these functions than are the sales of undeveloped leases containing gas not yet produced and gathered.

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[73] Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U. S. 498 (1949); see supra, pp. 49-52.

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In addition to the conclusions we have already reached, the evidence in this case supplies still another

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type of barrier to our regulation of Phillips' sales. Though technically consummated in interstate commerce, these sales are made "during the course of production and gathering."[*] And we expressly find that they are so closely connected with the local incidents of that process as to render rate regulation by this Commission inconsistent or a substantial interference with the exercise by the affected States of their regulatory functions.

In the first place, we affirm what is implicit in our order instituting this proceeding, namely, that if Phillips' sales were found to be jurisdictional, we would proceed with regulation of the rates charged. The impact of such regulation, in fixing just and reasonable rates under the Act, has consistently been to limit rates to an amount sufficient to recover costs plus no more than a reasonable return on actual legitimate investment.

State regulation of the production and gathering of gas, on the other hand, is concerned with conservation; with the gathering and marketing of gas, particularly casinghead gas produced with oil, rather than flaring it; with the number, density, and location of wells in exploring and developing producing areas; with unitization of common sources of supply;

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[*] See supra, p. 48.

[10882]

and with requiring ratable taking of gas and protecting the correlative rights of the various owners, together with so-called common-purchaser statutes authorizing enforcement of nondiscriminatory taking and purchasing of gas on the part of purchasers. Regulation by Oklahoma, Texas, and New Mexico, respectively, encompasses all or part of the foregoing aspects.

In varying degrees, the evidence clearly shows that our regulation of sales made in the process of production and gathering would, by its very nature, be inconsistent or constitute a substantial interference with such regulation of producers and gatherers by Oklahoma, Texas, and New Mexico. To cite one example, there is a direct relation between price and conservation, an important concern in the regulation of each of the States. Even though a producer be allowed a reasonable return on actual legitimate investment, our fixing of maximum rates for his sales would run counter to State conservation efforts, through the fixing of minimum well-head prices or otherwise, to insure maximum recovery of gas prior to abandonment of the well. For the higher the profit, the longer it is economical to operate the well. And to the extent that the producer could obtain a profit higher than that permissible under our maximum-price regulation, the longer abandonment would be postponed. Similarly, the higher

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the price paid to the producer and gatherer, the easier it becomes for the State to discourage by regulation the

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flaring of gas and to encourage the gathering and marketing of such gas." This is particularly true as to casinghead gas.

It is pertinent also to note that the several intervening producing states include those directly concerned, Oklahoma, Texas, and New Mexico. Their representatives vigorously urge that we have no jurisdiction, each contending that there would be, and supplying evidence of, a resulting conflict with its own regulation of producers and gatherers. Similar contentions are advanced by various representatives of producers, gatherers, and royalty owners.

On the other hand, our staff argues earnestly that jurisdiction does exist. So also do representatives of the State of Wisconsin; the County of Wayne, Michigan; the City of Detroit, Michigan; the City of Kansas City, Missouri; and the City of Milwaukee, Wisconsin. A contention is also advanced that a failure to find jurisdiction leaves Phillips free to charge unreasonable rates, the burden of which will fall on ultimate consumers. Since we have failed to find jurisdiction, we have of course not inquired into the reasonableness of Phillips' rates. But if it be assumed they are

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or will become unreasonable, we can only say to those who would have us find jurisdiction, what has often been

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"Additionally, it may be noted that the Supreme Court has observed that, "Low valuation by the [Federal Power] Commission of producing properties or low-cost allowance for purchased gas discourages exploration for gas or its sale in interstate commerce." **Federal Power Commission v. Panhandle Eastern Pipe Line Co.**, 337 U. S. 498, 507 (1949).

said by the Courts, that we think the remedy lies with Congress."

Furthermore—while we recognize that this has no bearing on the principles of law which must govern our decision in this case—it is nevertheless appropriate to point out that our conclusion that we are without authority to regulate the prices at which the producer and gatherer sells his gas to the pipe line does not leave the consuming public wholly without protection by us so far as this element in the cost of natural gas to the consumer is concerned. In passing upon certificates to construct and operate pipe-line facilities, the Commission must consider broadly the question of public convenience and necessity. It can take into account the reasonableness of the prices at which an applicant proposes to purchase gas; and it can deny certificate authorization when excessive cost of gas purchased in the field would result in unreasonable rates to ultimate consumers. Likewise, in the exercise of its power to regulate the wholesale rates charged by interstate pipeline companies, this Commission has ample authority to inquire into the reasonableness of all items of operating expense—including the cost of purchased gas—and to disallow, for purposes of rate-making, items of cost which are collusive or otherwise improperly excessive. While these observations are without influence upon our

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[7]See, e.g., Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U. S. 498, 515-516 (1949);
Price v. Gurney, 324 U. S. 100, 107 (1945);
A. F. L. v. N. L. R. B., 308 U S. 401, 411-412 (1940).

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decision on the law and facts in the instant proceeding, we think it important that they be understood. If such authority be deemed insufficient to afford adequate protection to the consuming public, the appropriate remedy is through amendatory legislation by the Congress, rather than through an effort so to construe the Natural Gas Act by administrative interpretation as to bring about a result not contemplated by the Congress when it enacted that Act.

Some question has been raised on this record as to whether our action herein is reviewable on petition of any party. We would be greatly concerned if our decision were not so reviewable for we deem it of the utmost importance that there be an early and conclusive answer to the question whether we have erred in refraining from asserting jurisdiction over sales made in the process of production and gathering throughout the 13 years under the Natural Gas Act. We are, however, convinced that all public agencies representing consumer interests which have participated as parties in these proceedings may obtain judicial review of our action in this case under the provisions of Section 19(b) of the Natural Gas Act. The Supreme Court made it clear that "the aim of the Act was to protect ultimate consumers of natural gas from excessive charges."[7] And, even without this judicial assurance, we are confident from the terms of the Act itself, as well as from its legislative history, that such is its primary purpose.

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[7]Federal Power Commission, et al. v. Interstate Natural Gas Company, et al., 336 U. S. 577, 581. See also Federal Power Commission v. Hope Natural Gas Company, 320 U. S. 591, 610, 612.

[10886]

Furthermore, the Act contains express recognition of the special interest of State and local agencies as representatives of consumers in our regulation of those sales subject to our jurisdiction. Thus, Section 15(a) authorizes us to admit as a party, in any proceeding before the Commission, among others, "any interested State, State commission, municipality or any representative of interested consumers." Likewise, Section 4(e) authorizes us to enter upon hearings concerning the lawfulness of rate changes upon complaint of "any State, municipality, or State commission." Again, in Section 5(a), we are empowered to institute investigations of existing rates, upon complaint of the same public bodies."

While it is true that only the wholesale rates of natural-gas companies are subject to regulation by this Commission, the legislative history of the Act amply demonstrates that the whole statutory scheme of Federal regulation was based upon the presumption that wholesale rates will normally be reflected in retail rates to consumers. Thus, the Supreme Court has said that natural-gas consumers "were the intended beneficiaries of rate reductions ordered by the federal commission, though state machinery might have to be invoked to obtain lower rates at the consumer level. The rates charged a wholesaler are

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part of its costs, reflected in its rate base. Reduction of those costs normally will lead in due course to reduction

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"See also Secs. 5(b) and 17(c).

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in its resale rates, unless we are to assume that the passage of the Natural Gas Act was an exercise in futility.'"[9] Similarly, reductions in wholesale rates to local distributors normally will result in reduced retail rates.

We must, and do, assume that this would have been the result in the instant case had we found Phillips to be a natural-gas company, that its rates were subject to our regulatory jurisdiction, and that they were excessive since all wholesale rates charged by the interstate pipe lines purchasing from Phillips are subject to our regulatory investigation and orders, and since the retail rates of the customers of such wholesalers are regulated by public agencies of the several States in which they serve.

But our decision has deprived the ultimate consumers of gas thus sold by Phillips of the benefit of any rate reduction which might have followed a finding that jurisdiction exists. Certainly this should give their representatives the standing of "aggrieved" parties.

It is too well established to require more than passing reference that official action causing a reasonable certainty of

[10888]

economic injury constitutes a basis for aggrievement under statutory review provisions substantially identical with those of the Natural Gas Act.[10] By like reasoning, denial

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[9]Federal Power Commission v. Interstate Natural Gas Company, 336 U. S. 577, 581 (1948).

[10]Federal Communications Commission v. Sanders Radio Station, 309 U. S. 470; Scripps-Howard Radio, Inc. v. Federal Communications Commission, 316 U. S. 4; Associated Industries v. Ickes, 134 F. 2d 694 (C. A. 2), vacated and remanded on other grounds, 320 U. S. 707.

to any party of a reasonably certain economic advantage must also result in aggrievement.

Our uniform practice has been consistent with these conclusions. Indeed, our General Rules and Regulations provide that any State commission may intervene merely by giving notice of its desire to do so. We have never doubted that such parties had standing, under appropriate circumstances, to petition for judicial review of our orders even though only wholesale rates were involved.

In view of the foregoing, we can see no jurisdictional barrier in the paths of the State or Public Service Commission of Wisconsin, or the County of Wayne, Michigan or the Cities of Detroit, Kansas City or Milwaukee, should they conclude that our decision is based on a mistaken concept of law or is otherwise invalid.

[10889]

For all of the foregoing reasons,

The Commission further *finds*:

(1) Phillips Petroleum Company is engaged in the "production and gathering" of natural gas within the meaning of Section 1(b) of the Natural Gas Act.

(2) Phillips' movement of gas in interstate commerce and its sales thereof for resale in interstate commerce, together with its processing operations, all constitute a part of its gathering business, or they are incidents of or activities related to such

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business, so that such movement, processing, and sales come within the exemption of production and gathering in Section 1(b) of the Act.

(3) Phillips Petroleum Company is not a "natural-gas company" within the meaning of Sections 1(b) or 2(6) of the Natural Gas Act.

The Commission *orders*:

That the proceeding initiated by the Commission's order of October 28, 1948, in Docket No. G-1148 be, and the same hereby is, terminated.

By the Commission. Commissioner Draper concurring in the result.

Commissioner Buchanan dissenting.

J. H. Gutride,
Acting Secretary.

Date of Issuance: August 22, 1951

[10890]

In the Matter of Phillips Petroleum Company } Docket No. G-1148

DRAPER, Commissioner, concurring:

The majority decision is based on two separate grounds.

First, it is held that the sales by Phillips are a part of production and gathering and that such sales are therefore exempt from jurisdiction by the "production and gathering"

clause of Section 1(b) of the Natural Gas Act. While I agree with the view of the majority that these sales are made in the course of production and gathering, I must disagree that they are exempt for this reason alone. My disagreement is made necessary by the statements of the Supreme Court of the United States in *Interstate Natural Gas Company v. Federal Power Commission*, 331 U. S. 682. As I read its unanimous opinion, the Commission's jurisdiction does attach to sales for resale in interstate commerce made during the course of production and gathering, except where they are "so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions * *." 331 U. S. at 690. This has been my consistent view and was the basis for my dissent when the Commission adopted its Order No. 139, referred to in the majority opinion. My position should be the more clear from the following question which I addressed to counsel at the outset of the oral argument in these proceedings: "Are they (sales made by Phillips to pipe line companies admittedly in interstate commerce) made during the course of production and gathering and are (they) so closely connected with the whole instance of

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that process as to render rate regulation by the Federal Power Commsision inconsistent, or in substantial interference with the exercise by the state of its regulatory functions? I think that is the whole question in this case."

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The second ground for the majority decision is its finding that inconsistency or substantial interference with state regulation would result from regulation of Phillips' sales by this Commission. I agree with this finding. My exhaustive study of the record in this case convinces me that there would clearly result a conflict of the sort contemplated by the language used in the Interstate opinion. Since this is so, as the Court said in that case, "The jurisdiction of the Federal Power Commission does not attach."

I therefore concur in the result reached by the majority, but only for the reasons I have stated.

Claude L. Draper, Commissioner

August 16, 1951

Dtae of Issuance: August 22, 1951

[10892]

In the Matter of
Phillips Petroleum Company } Docket No. G-1148

BUCHANAN, Commissioner, *dissenting*:

I cannot agree with the decision of the majority.

The majority are in error in holding that the wholesale sales of natural gas in interstate commerce by Phillips Petroleum Company (Phillips) in the States of Texas, Oklahoma and New Mexico to five interstate pipeline companies[1]

[1]Michigan-Wisconsin Pipe Line Co., Panhandle Eastern Pipe Line Co., Independent Natural Gas Co., El Paso Natural Gas Co. and Cities Service Gas Co. (See Appendix B)

for ultimate public consumption in the States of California, Arizona, New Mexico, Kansas, Nebraska, Iowa, South Dakota, Minnesota, Missouri, Illinois, Wisconsin, Indiana, Ohio and Michigan are not within the scope of the rate provisions of the Natural Gas Act (Act), and that Phillips is not subject to the provisions of the Act as a "natural-gas company."

When the bill which became the Natural Gas Act[2] was pending before Congress the House Committee on Interstate and Foreign Commerce stated in its report:

> Your committee believes that this legislation is highly desirable *to fill the gap in regulation* that now exists by reason of the lack of authority of the State commissions." H. Rept. No. 709, 75th Cong., 1st Sess., p. 3.[3]

It is extremely regrettable to me and I believe equally shocking to the public to learn that my colleagues, through their action, revive a serious "gap" in regulation which Congress closed in 1938 and which the Courts have since declared no longer exists.

[10893]

When Congress enacted the Natural Gas Act, it declared the national policy in so doing as follows:

> Section 1. (a) As disclosed in reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Con-

[2]52 Stat. 821 (1938), 15 U. S. C. sec. 717 et seq.

[3]Emphasis supplied unless otherwise noted.

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gress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.

Subsequently, the Supreme Court in speaking of the Congressional policy said:

> The primary aim of this legislation was to protect consumers against exploitation at the hands of natural gas companies. * * * *Federal Power Commission, et al. v. Hope Natural Gas Co.*, 320 U. S. 591, 610.

The evidence in this case shows beyond a doubt that the majority opinion would permit the very exploitation which the Natural Gas Act was designed to prevent. The majority suggest that the consumers of natural gas, if they are to have protection from excessive interstate gas rates must now go to the Congress to seek an amendment of the Act.

This is to be contrasted with the view of the Commission only last year when we were of the opinion[1] that producers

such as Phillips who sell natural gas in interstate commerce would have to obtain an amendment of the Act to accom-

[1]Kerr Bill, H. R. 1758. Commissioners Smith and Wimberly believed the Act should be "clarified" and favored passage of the Bill; Commissioners Draper, Olds and Buchanan opposed the legislation as detrimental to consumers and against the public interest.

plish that which the majority attempts to give them here. Producers, representatives of producing States and the Congress evidently were of the same opinion as the Commission as to the import of the Natural Gas Act. For after a bitter and extremely close struggle,[1] the Congress at the urging of these groups passed an amendment to the Act to remove from this Commission's jurisdiction wholesale sales in interstate commerce by the so-called "independent" or non-affiliated producers of natural gas such as Phillips. The resounding veto of the amendment by the President of the United States pointed out that it was not in the public interest. Significantly no attempt was made to override the presidential veto.

I.

Bearing in mind that the purpose of the Congress in enacting the Natural Gas Act was to close the gap in the regulation of natural gas moving in interstate commerce, the first inquiry arises what was the gap at the time the Congress acted.

In *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, 689-90, the Supreme Court stated:

[10895]

> In a series of decisions announced prior to the passage of the Act, this Court had held that, although

[1]The record of the vote on H. R. 1758 (Kerr Bill) in each branch of Congress shows: Senate—44 "yeas," 38 "nays," 14 not voting. 96 Cong. Rec. 4304; House—176 "yeas," 174 "nays," 2 voting present, 70 not voting, Messrs. Wilson of Indiana, Shafer, Latham and Moulder changed their votes from "nay" to "yea". 96 Cong. Rec. 4567.

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Congress had not acted, *the regulation of wholesale rates of gas and electrical energy moving in interstate commerce is beyond the constitutional powers of the States.*" * * * As was stated in the House Committee report, the "basic purpose" of Congress in passing the Natural Gas Act was "to occupy this field in which the Supreme Court has held that the States may not act."[11] In denying the Federal Power Commission jurisdiction to regulate the production or gathering of natural gas, it was not the purpose of Congress to free companies such as petitioner from effective public control. The purpose of that restriction was, rather, to preserve in the States powers of regulation in areas in which the States are constitutionally competent to act.

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[10]**Missouri v. Kansas Natural Gas Co.**, 265 U. S. 298 (1924); **Public Utilities Comm'n v. Attleboro Steam & Electric Co.**, 273 U. S. 83 (1927); **State Corp. Comm'n v. Wichita Gas Co.**, 290 U. S. 561 (1934).

* * *

[11]H. R. Rep. No. 709, 75th Cong., 1st Sess., 2.

In *Panhandle Eastern Pipe Line Co.* v. *Public Service Commission*, 332 U. S. 507, the Court said, at page 520:

"The Natural Gas Act created an articulate legislative program based on a clear recognition of the respective responsibilities of the federal and state regulatory agencies. It does not contemplate ineffective regulation at either level. We have emphasized repeatedly that Congress meant to create a comprehensive and effective regulatory scheme, complementary in its operation to those of the states and in no manner usurping their authority. *Public Utilities Comm'n* v. *Hope Gas Co.*, 320 U. S. 591, 609-610; *Interstate Gas Gas Co.*, 317 U. S. 456, 467; *Power Comm'n* v. *Hope Gas Co.*, 320 U. S. 591, 609-610; *Interstate Gas Co.* v. *Power Comm'n*, 331 U. S. 682, 690.

In *Federal Power Commission* v. *East Ohio Gas Co.*, 338 U. S. 464, at page 472, the Court reaffirmed its determination that the States are powerless to act respecting wholesale

[10896]

sales of natural gas in interstate commerce to interstate pipe-line companies.

The Court makes it clear that the gap which Congress closed by the enactment of the Natural Gas Act was the gap created by decisions of the Supreme Court prior to the passage of that Act. It said (pp. 471-72):

> * * * Urging that all of East Ohio's business is fully subject to regulation by the state, they rely on statements by this Court that Congress intended not to cut down state regulatory power but rather to supplement it by closing "the gap created by the prior decisions." *Panhandle Eastern Pipe Line Co.* v. *Public Service Comm'n*, 332 U. S. 507, 517-19; see also *Public Utilities Comm'n of Ohio* v. *United Fuel Gas Co.*, 317 U. S. 456, 467. We adhere to those statements. But *prior* constitutional decisions, not what we have since decided or would decide today, form the measure of the gap which Congress intended to close by this Act. *Illinois Gas Co.* v. *Public Service Co.*, 314 U. S. 498, 508; and see *Parker* v. *Motor Boat Sales*, 314 U. S. 244, 250.
>
> (Emphasis the Court's)

It is to be noted that the Supreme Court in pointing out that the regulation of wholesale rates of gas moving in interstate commerce is beyond the constitutional powers

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of the States and that the *basic purpose* of Congress in passing the Natural Gas Act was to *occupy this field in which the Supreme Court has held they may not act*, has repeatedly cited the *Attleboro* case. Even a cursory reading of the Supreme Court decision in that case makes it clear that the very type of sales in which Phillips engages was the type of sales to which the Supreme Court referred in its decision in the *Attleboro* case.

[10897]

The *Attleboro* case[1] arose when the Narragansett Electric Lighting Company engaged in the manufacture of electric energy in Providence, Rhode Island, undertook to increase its rates for the sale of electric energy to Attleboro Steam & Electric Company in Massachusetts for distribution locally in that State.

In holding that the Rhode Island Commission could not fix the rates to be charged by Narragansett Electric in Rhode Island to the Attleboro Company in Massachusetts the Supreme Court plainly delineated the "gap" in regulation of interstate commerce, by stating, at page 89:

> It is clear that the present case is controlled by the Kansas Gas Co. Case. The order of the Rhode Island Commission is not, as in the Pennsylvania Gas Co. Case, a regulation of the rates charged to local consumers, having merely an incidental effect upon interstate commerce, but is a regulation of the rates charged by the Narragansett Company for the inter-

[1] Public Utilities Commission of Rhode Island v. Attleboro Steam & Electric Co., 273 U. S. 83 (1927).

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state service to the Attleboro Company, which places a direct burden upon interstate commerce. Being the imposition of a direct burden upon interstate commerce, from which the state is restrained by the force of the commerce clause, it must necessarily fall, regardless of its purpose. * * * *The test of the validity of a state regulation is not the character of the general business of the company, but whether the particular business which is regulated is essentially local or national in character;* * * * * *Plainly, however, the paramount interest in the interstate business carried on between the two companies is not local to either state, but is essentially national in character. The rate is therefore not subject to regulation by either of the two states in the guise of protection to their respective local interests; but, if such regulation is required it can only be attained by the exercise of the power vested in Congress.*

[10898]

The cases cited express the consistent view of the Supreme Court from *Gibbons* v. *Ogden*, 22 U. S. 1 (1824), down to the present date and that view was well understood by Congress when it had under consideration the passage of the Natural Gas Act.

On June 7, 1938, there was printed in the Congressional Record a declaration of Senator Wheeler, Chairman of the Senate Committee on Interstate Commerce and in charge of the bill, as to the "Necessity for Federal Regulation of the Natural-Gas Industry," 83 Cong. Rec. App. 2422 et seq., which contains the following language, at page 2422:

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"The courts have held that sales for resale, or so-called wholesale sales in interstate commerce, are not subject to State regulation (*Missouri* v. *Kansas Gas Co.*, 265 U. S. 298 (1924); *Public Service Commission* v. *Attleboro Steam and Electric Company*, 273 U. S. 83 (1927); *East Ohio Gas Co* v. *Tax Commission of Ohio*, 283 U. S. 465.

Neither the sending nor receiving State may regulate the wholesale rates. The consumption of natural gas in the States is secured for the most part through interstate transmission, and the cost thereof is a very material element in determining the price the local consumers must pay for their gas.

And at page 2424.

Federal jurisdiction plus the jurisdiction of the several States should be so utilized and coordinated as to produce effective regulation and the termination of existing abuses to the end that there should be no unregulated twilight zone. Otherwise our system fails in a very crucial situation.

This bill is designed to provide the necessary complement to State regulations * * *.

[10899]

Thus, it is clear that the sales by Phillips in issue here are such sales over which the Congress, relying on decisions of the Supreme Court, intended to assert its power when it enacted the Natural Gas Act.[7]

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[7]The legislative history of H. R. 6586 is devoid of any suggestion to the contrary: "Mere uncorroborated hearsay or rumor does not constitute substantial evidence." Edison Co. v. Labor Board, 305 U. S. 197, 230.

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The statements referred to in the majority opinion of Mr. DeVane, Solicitor of the Federal Power Commission, made in 1936 before the House Committee on H. R. 11662, 74th Cong., 1st Sess., a predecessor bill to H. R. 6586, 75th Cong., 1st Sess., are misleading. H. R. 11662 differed fundamentally from H. R. 6586 in its jurisdictional provisions. It only provided for regulation over transportation of natural gas in high-pressure mains in interstate commerce, not over transportation and sales of natural gas in interstate commerce for resale. See Appendix "C" hereto.

The identical argument that Section 1(b) of the Natural Gas Act exempts the sales of producers and gatherers, based upon the same statements of Mr. DeVane concerning H. R. 11662, was fully presented to the Supreme Court in *Interstate Natural Gas Co.* v. Federal Power Commission, 331 U. S. 682; and rejected by the Court's decision that this Commission possessed jurisdiction to regulate the wholesale rates there involved. See Petitioner's Brief, *Interstate Natural Gas Co.* v. *Federal Power Commission, Case No.* 733, October Term 1946, pp. 33-39.

The majority state in effect, that the Supreme Court in *Cities Service Gas Co.* v. *Peerless Oil and Gas Company,* 340 U. S. 179 (1950), reversed its long and consistent holding that the States

[10900]

were impotent to regulate the kind of sales here involved. This view is wholly unwarranted, for as the Court expressly stated, page 188:

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Appellant does not contend that the Orders conflict with the Federal authority asserted by the Natural Gas Act, 52 Stat. 821 (1938), 15 U. S. C. §717 *et seq.* (1948). The Federal Power Commission has not participated in these proceedings. Whether the Gas Act authorizes the Power Commission to set field prices on sales by independent producers or leaves that function to the States, is not before this Court.

Moreover, assuming, *arguendo*, that a modification of the Constitutional gap has occurred since the passage of the Natural Gas Act, such modification would have no bearing on the question presented in this case. As has been noted the Supreme Court stated in the *East Ohio* case, *supra*, that the gap which was filled by the Act was that which existed under the Supreme Court's decisions at the time of the enactment of the statute and which gap clearly includes the kind of sales made by Phillips.

II.

The evidence of record in this proceeding conclusively establishes as will be shown hereinafter that the sales here in issue, by Phillips to the five pipe-line companies are consummated after "production" and "gathering" are completed. Contrary to the evidence, however, Phillips contends, and the majority conclude, that these sales are "a part of its gathering business, or they are incidents of or activities related to such business, so that"

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the "sales come within the exemption of production or gathering in Section 1(b) of the Act."[8] It should be noted that Commissioner Draper, one of the majority, does not concur in this view of the majority.

In other words, despite the legislative history of the Act showing that there was to be no "unregulated twilight zone" and judicial decisions to that effect, the majority say there is a gap.

Even if it be assumed, *arguendo*, that the majority have correctly held that the sales are consummated "during the course of production or gathering," the position of the majority in the instant case, that such sales are therefore exempt from our jurisdiction has been decided adversely to their view, first by this Commission, 3 F. P. C. 416, 48 PUR (NS) 267; secondly by the Court of Appeals for the Fifth Circuit, *Interstate Natural Gas Co.* v. *Federal Power Commission*, 156 F. 2d 949 (1946); and lastly by the Supreme Court of the United States, *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682 (1947).

The basic facts in the *Interstate* case were for all practical purposes identical to those presented here. The Commission in its Opinion in that case found:

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[8]Section 1.(b) The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

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[10902]

Interstate owns and operates an integrated natural gas system consisting of 110 gas wells in the Monroe gas field located in northern Louisiana, pipe lines which gather the gas produced from its own wells, and gas purchased from other producers, and pipe lines which transport substantially all of that gas in interstate commerce to various points of sale and delivery in Louisiana and Mississippi. (3 F. P. C. 416, 418-19)

There, as here, the jurisdictional question involved sales to interstate pipe-line companies:

The jurisdictional dispute presented in these proceedings involves Interstate's sales of gas in northern Louisiana to the Mississippi River Fuel Corporation, to Southern Natural Gas Company, and to United Gas Pipe Line Company for the account of Memphis Natural Gas Company. (*Id.* p. 419)

Before this Commission, Interstate made the identical contention that Phillips makes, and with which the majority here agree, *viz.*, that all of its pipe-line systems extending to the points of sale in issue were "gathering" lines. The Commission rejected Interstate's contention, saying:

It is clear from the evidence that as a practical operating matter Interstate does not consider its transportation lines as something separate from its field lines. Interstate's pipe lines are operated as a unit. * * * Interstate transports the gas which it buys from such companies in the Monroe field and commingles that gas with gas which it has produced and gathered in the Monroe field, and then transports this com-

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> mingled gas [from 2 to 4 miles] to the points of sale and delivery in Louisiana to the Mississippi River Fuel Corporation, Southern Natural Gas Company, and United Gas Pipe Line Company for the account of Memphis Natural Gas Company. The gas transported and sold by Interstate to these three pipe line Companies continues to flow in interstate commerce and, as an established course of business well known to Interstate, is destined for resale for ultimate public consumption in Memphis, St. Louis, Birmingham, Atlanta, and other markets outside Louisiana. (*Id.* p. 420)

[10903]

The claim to jurisdictional immunity made by Interstate, was stated as follows:

> * * * Interstate does not now deny that the sales of natural gas to the three pipe line Companies constitute sales of natural gas in interstate commerce for resale, but it contends that each of these sales constitutes a sale in the "production and gathering" of gas and falls within the claimed exemption stated in 1(b) of the Natural Gas Act. (*Id.* p. 420)

The Commission refused to accept this interpretation of Section 1(b) saying:

> The negative language in Section 1(b) upon which the Interstate Company relies for its claimed exemption involving these sales provides that the Commission shall not have jurisdiction over "the production or gathering of natural gas." *When the distinction between production and gathering of natural gas, and the sale of such gas in interstate commerce is kept in mind, effect is given to the Congressional objective.*

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> The Commission is bound to obey the command of Congress to regulate these sales in interstate commerce for resale to the three pipe line Companies. Such is clearly the implication of the decision of the Circuit Court of Appeals in *Peoples Natural Gas Co.* v. *Federal Power Commission*, 127 F. (2d) 153; cert. den. 316 U. S. 700 (*Id.* p. 421)

It is that very interpretation of Section 1(b) then rejected by this Commission in the Interstate case which the majority now espouse in their opinion.

Interstate reiterated its interpretation of Section 1(b) of the Natural Gas Act in its appeal from the Commission's decision to the Court of Appeals for the Fifth Circuit. The Court stated Interstate's contention as to Sec. 1(b) thus:

[10904]

> Petitioner is here complaining: (1) that the sales were not within, but were expressly excluded from, the jurisdiction of the commission; * * * *Interstate Natural Gas Co.* v. *Federal Power Commission, supra*, p. 950.

The contention of Interstate there as to Section 1(b) was the same as adopted by the majority here. But the Court of Appeals, in affirming the Commission's assertion of jurisdiction and rejecting the contention of Interstate, clearly pointed out a basic error of the majority here.

> We think petitioner's difficulties in construction and interpretation arise out of the fact that, treating unlike things as alike, *it tries to read the exception with respect to production or gathering as an excep-*

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tion with respect to sales. There is no warrant in the act for so doing. It is very simply and plainly written. After stating what it shall apply to, it then states what it shall not apply to. Under familiar rules of construction, a negation in or exception to a statute will be construed so as to avoid nullifying or restricting its apparent principal purpose and the positive provisions made to carry them out. No conflict with them will, therefore, be found unless the conflict is clear and inescapable and then only the precise point of the conflict. Cf. Hartford v. Federal Power, 2 Cir., 131 F 2d 933. Here the statute was drawn to regulate, it picked out for inclusion "sale in interstate commerce of natural gas for resale for ultimate public consumption." It excluded from the scope of the act sales other than of this kind. It included transportation in interstate commerce. It excluded local distribution of natural gas.

Unnecessarily perhaps but in the interest of making clear that the act gave jurisdiction only over sales and transportation of the kind described in it, it used language removing from any doubt that the Commission was not to have jurisdiction over properties used for production and local distribution or the activities of production and gathering. It did this by expressly providing that the act should not apply "to the facilities used for such [i. e. local] distribution or to the production or gathering of natural gas." *Id.* p. 951

[10905]

Again in the Supreme Court Interstate urged its interpretation of Section 1(b). The Supreme Court said, (331 U. S. at 689, 690-1)

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The Company contends, however, that regardless of whether the sales in question are in interstate commerce, those transactions fall within the clause of §1(b) specifically excepting from the Commission's jurisdiction, regulation of "* * * the production or gathering of natural gas." * * *

In a series of decisions announced prior to the passage of the Act, this Court had held that, although Congress had not acted, the regulation of wholesale rates of gas and electrical energy moving interstate commerce is beyond the constitutional power of the States." * * * As was stated in the House Committee report, the "basic purpose" of Congress in passing the Natural Gas Act was "to occupy this field in which the Supreme Court has held that the States may not act."[13] In denying the Federal Power Commission jurisdiction to regulate the production or gathering of natural gas, it was not the purpose of Congress to free companies such as petitioner from effective public control. The purpose of that restriction was, rather, to preserve in the States powers of regulation in areas in which the States are constitutionally competent to act. Thus the House Committee Report states: "The bill takes no authority from State commissions, and is so drawn as to complement and in no manner usurp State regulatory authority * * *."[14] Clearly, among the powers thus reserved to the States is the power to regulate the physical production and gathering of natural gas

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[12]**Missouri v. Kansas Natural Gas Co.**, 265 U. S. 298 (1924); **Public Utilities Comm'n v. Attleboro Steam & Electric Co.**, 273 U. S. 83 (1927); **State Corp. Comm'n v. Wichita Gas Co.**, 290 U. S. 561 (1934).

* * *

[13]H. R. Rep. No. 709, 75th Cong., 1st Sess., 2.
[14]Ibid.

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in the interests of conservation or of any other consideration of legitimate local concern."

[10906]

That the Supreme Court was saying that sales made during the course of production or gathering are subject to our jurisdiction is made conclusive by the following language of the Court which came on the heels of the preceding quotation: (*Id.* p. 690-1):

> * * * Thus where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach. But such conflict must be clearly shown. Exceptions to the primary grant of jurisdiction in the section are to be strictly construed. It is not sufficient to defeat the Commission's jurisdiction over sales for resale in interstate commerce to assert that in the exercise of the power of rate regulation in such cases, local interests may in some degree be affected. * * *

As will be developed later, the sales here in issue are not so connected with the local incidents of production and

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[17]Colorado Interstate Gas Co. v. Federal Power Comm'n, 324 U. S. 581, 602-603 (1945).

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gathering[9] as to cause regulation by the Federal Power Commission to be inconsistent or a substantial interference with state regulated functions. In fact state regulation of Phillips' twelve sales here in issue is completely absent. Moreover, the Supreme Court's statement plainly shows that "local incidents" of the process of production or gathering are one thing and "sales" are another, and that such "local incidents" cannot include sales in interstate commerce.

[10907]

Contrary then to the assertion of the majority that the issue is new in the Courts, we have seen that the Supreme Court has already held that sales in interstate commerce even when made during the course of production and gathering are subject to our jurisdiction.

The decision of the Supreme Court in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498 (1949), does not qualify the Court's pronouncement in the *Interstate* case.[10] The *Panhandle* case did not involve sales of natural gas but a question as to whether this Commission had authority over the sale of certain undeveloped gas leases in Kansas.

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[9]It is settled law that production, on the one hand, and a sale or transportation in interstate commerce, on the other, are legally distinct activities. **Carter v. Carter Coal Co.**, 298 U. S. 238, 302-03; **United States v. Darby**, 312 U. S. 100. As they are distinct activities, the majority does not explain how they become "a part of gathering."

[10]The majority opinion places great weight on the remark of the Supreme Court in the **Panhandle** case (337 U. S., p. 506) that: "The use of such data • • • [cost of producing and gathering facilities] • • • for rate making is not a precedent for regulation of any part of production or marketing." That by the term "marketing" the court meant "local distribution" is too obvious for argument. **Id.** p. 507. Likewise, whether the transaction was a "sale of gas in place" is completely immaterial. Regardless of whether it was a sale of gas or of gas leases, the transaction was not a sale for resale of natural gas in interstate commerce.

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III.

Apart from the fact that as a matter of law th
made during the course of production and gatheri
subject to and, therefore, not exempt from our juris
the evidence in this case reveals beyond doubt th
sales by Phillips are made after

[10908]

all aspects of production and gathering have been
pleted. They cannot be construed as a "part of the g
ing business" or "incidents of or activities related to
business" as the majority conclude.

The use and meaning of the term "gathering" i
natural gas industry was the subject of expert testi
Mr. B. P. Stockwell, a natural-gas engineer employ
this Commission and with more than 30 years' exper
in the industry as an employee and executive of na
gas companies and holder of responsible positions wit
Illinois, Oklahoma, West Virginia and Federal Power
missions, testified on behalf of the staff. He testified
the term "gathering" as used in the natural-gas ind
describes operations by which gas produced from a
ber of wells is assembled through connecting pipe
into a common line designed to convey natural gas
transmission pipe line or processing plant. He also tes
with respect to the facilities of Phillips that the gath
of gas cannot extend beyond the point where (1) a
line enters the processing plant enclosure or (2) con
with a transmission line but (3) may end short of
points.

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The witness also testified that the term "processing plant" describes a plant wherein some liquid hydrocarbons are extracted from natural gas or where the gas is treated for the removal of sulphur, or is dehydrated. He stated that the processing plant operation is a distinct operation separate from gathering. The witness also testified that processing may be performed at other places than in the field, such

[10909]

as along a transmission line,[11] and he gave numerous examples from his experience where natural gas was not processed until far after the gas had been gathered. He stated that based upon his 30 years of experience in the industry he had never heard it claimed that a processing plant is a part of a gathering system. Witness Stockwell's expert opinion that "processing" of natural gas is not included within the term "gathering" is supported by the ordinary meaning and accepted trade or technical definitions of the term."

As the record here shows, the operation of a natural gas processing plant can be for the dual purpose of treating natural gas to aid in the transmission of the gas to markets

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[11]We know from our experience that processing plants are oftentimes located astride transmission lines hundreds of miles from the producing field. For example, Tennessee Gas Transmission Corporation has recently placed in operation a plant located in Kentucky for the extraction of liquid hydrocarbons that processes gas transported 1,000 miles or so from Texas and Louisiana.

[12]See definition of "gather" and "gathering" in Funk and Wagnall's New Standard Dictionary (1941), Webster's New International Dictionary, 2nd Ed. (1940), Petroleum Dictionary for Office, Field and Factory by Hollis P. Porter, 4th Ed. Cf. **Henderson Development Co. v. United Fuel Gas Co.**, 3 S. E. 2nd 217, 219 (W. Va., 1939)

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and of recovering liquid hydrocarbons to secure
from the sale thereof. It is clear that processi
various phases in no way contributes to the gat
assembling of the gas at a common point. It is a
practice in the industry to produce, gather and s
it comes from the well without any processing
being performed in connection therewith.

[10910]

Likewise, the evidence shows that the processi
Phillips does at the eleven plants varies and depe
contractual rights and obligations. The extent t
Phillips removes the heavy hydrocarbons is gove
the sales contracts, which differ in their specificati
the minimum Btu content for the gas delivered. In
ous instances the purchasing pipe-line companies
Phillips treat the gas for the removal of excess sulp
moisture, and these processes if performed by Phi
likewise a matter of contract with the purchaser.

The Sneed and Goldsmith operations describe
are conclusive of the fact that processing is not ga
is not a part of the gathering functions or an i
thereof.

At Phillips' Sneed plant, natural gas passes t
scrubbers and is compressed and treated for sulph
tent, then sold and delivered by Phillips to Panhar
Panhandle's adjacent compressor station, it is comm
with other gas produced and gathered by Panhandl
commingled gas is further compressed by Panhand

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delivered back to Phillips for additional processing. The ownership of such gas, however, upon return for processing is retained by Panhandle, and Phillips has only a right to remove certain heavy hydrocarbons in the Sneed plant as governed by contract between the parties. After processing and redelivery to Panhandle, the gas moves through Panhandle's interstate pipe-line system to its ultimate destinations. Can it be said that gathering is involved in the processing after the sale has taken place to Panhandle? Yet that is the logical result of the majority's holding.

[10911]

At Phillips' Goldsmith plant all natural gas passes through scrubbers, some low pressure gas being compressed and commingled with high pressure gas. This gas is then delivered to El Paso. El Paso compresses all gas coming from Phillips and then returns it to Phillips' Goldsmith plant for processing although ownership is retained by El Paso and the processing by Phillips for the removal of heavy hydrocarbons is governed by the sales contract. Upon redelivery to El Paso, the gas moves through El Paso's interstate pipe line-system to its ultimate destinations. Is processing here, too, gathering or a part or incident thereof?

Furthermore, Phillips itself has admitted prior to this proceeding in prospectuses filed with the Securities and Exchange Commission, in contracts and in other documents, that "gathering" and "processing" are separate and distinct functions and that "processing" follows "gathering"

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in order of time and space."[12] This recognition on the part of Phillips of the distinction between the two functions under normal circumstances belie its assertion under the particular stress of this proceeding that "gathering" comprehends "processing", and stamps such assertion as an after-thought without substance.

Additionally, the twelve points of sale and delivery to the five interstate pipe-line companies are shown by the record to be located in all cases on the discharge side of the processing plants at or near the fence line where the pipe-line facilities owned and operated by Phillips connect with the pipe-line facilities owned by the purchasing pipe-line companies.

[10912]

It is clear from this record that "gathering" has been entirely completed some distance prior to or at the intake side of the eleven processing plants; that an interval of transportation, processing or both, are interposed between the completion of "gathering" and the point where the sales and deliveries are made. Thus, by the time the sales are consummated, nothing further in the "gathering" process remains to be done.

The majority say, however, that the purpose of production and gathering is the sale of gas, that processing is undertaken to make the gas salable or to extract salable liquid products; *ergo* that processing is an incident to production and gathering. This is a *non sequitur*. The ultimate

[12]Exhibits 26, 28, 29, 9-A; T. 410

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purpose of all natural-gas operations—production, gathering, transmission, processing and distribution—is the sale of gas. But the fact remains that processing is a separate and distinct function and operation from production or gathering, just as production, gathering, transmission and distribution are separate functions from each other.

Sale is a legal transaction involving the transfer of title to a purchaser. Since "gathering" is descriptive of a certain species of transportation, it cannot include a sale. "Incident" means a subsidiary or subordinate event or action, and the labeling by the majority of the sale—the ultimate purpose of all natural gas operations—as an incident of "gathering" or of "gathering business" is a distortion of the true relationship between these terms—"sale" "and gathering." Gathering may be an incident of sale, but sale, an incident of gathering, as the majority holds, never.

[10913]

The evidence also shows that Phillips is engaged in the transportation of natural gas in interstate commerce within the meaning of the Natural Gas Act. Seven main trunk lines owned and operated by Phillips in the Texas-Hugoton, East Panhandle and West Panhandle gas fields are properly to be classified as transportation lines. Attached as Appendices A-1 and A-2 are sketches of the gathering, transporting and processing facilities of Phillips extending from the vicinity of the gas producing wells to points of sales to the interstate pipe-line companies.

Four of these lines (one of 16" diameter and three of 24" diameter) lead into the Sherman processing plant; one

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24" line connects the Dumas, Sneed and Rock Creek processing plants; one 24" line runs from a point north of the Sneed processing plant to the Sneed plant, and thence to the Rock Creek plant; and one 20" line extends from the Wheeler booster station in the East Panhandle field to the Gray processing plant in the West Panhandle field. All of these lines move large volumes of gas of constant volume into the processing plants for distances of from some 10 to 25 miles from points in the field where the gas to be moved has been brought together in a single, homogenous, commingled mass. In the case of several of these lines, there is no input of gas throughout these distances; in the case of some, there is a small amount of gas added through a few connecting field lines, but not sufficient to have an appreciable effect upon the volume of gas flowing in the main lines.

It is clear from the record that the function of gathering the stream of gas in each of these lines into a flow of constant

[10914]

volume has been entirely completed at the points 10 to 25 miles distant from the processing plant enclosures; and that from these points on, the sole function of the seven lines is to transport natural gas. From specific points far upstream from the processing plants, the gas has been definitely committed to its interstate journey to markets in States other than the States in which the gas was produced. Moreover, the movement through the processing plants and through the outgoing lines of Phillips into the lines of the

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five interstate pipe-line companies constitutes transportation under the Act.

The staff expert witness, Mr. Stockwell, testified that gathering of gas ends at the point on a main field line where all the gas has come into a common flow, the line from such point is a transportation line; the fact that a line is in a producing field makes no difference in resolving the question as to whether it is a transportation line; that "we have lots of transmission lines in producing fields."

Phillips' own admissions are to the same effect. In a contract between Phillips and Panhandle Eastern,[14] there is a reference to Phillips' "gathering and transportation facilities" in the Sneed Plant area. In 1940, responsible officials of Phillips, before they became alerted by the pendency of an investigation, testified before this Commission that Phillips' "construction of gas transmission lines ranging from 15 to 50 miles in length is just ordinary course all the time"; that "it is not quite correct to

[10915]

describe" such lines "just as gathering lines from wells." Their testimony identified two of the aforementioned seven lines as being within the category to which they referred.[15]

Finally, Phillips, in a prospectus filed in 1947 with the Securities and Exchange Commission, before this proceeding was initiated, admitted that its operations involve the sale and transportation of natural gas in interstate com-

[14]Exhibit 9-B, p. 2.

[15]Item M by reference, pp. 87-90.

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merce, subjecting it to our jurisdiction as a "natural g company." Phillips said:

> Although such sales and the transportation of natu ral gas antecedent thereto constitute operations by th company as a "natural gas company" under the Natura Gas Act, and, as such, are subject to Federal Powe Commission's jurisdiction, unless the exercise of such jurisdiction constitutes an interference with State regu lation of production or gathering, the Commission, with Commissioner Draper dissenting in a declaration made on the 15th day of August 1947, disclaimed the in tention to exercise jurisdiction over such sales if made at arm's length, that is, sales made as an incident to the producing or gathering operation by a producer or gatherer of gas to a non-affiliate (order No. 139, docket No. R-106 [18 CFR 2.54]).[16]

This is in marked contrast with Phillips' present claim that its business is exclusively the production or gathering of natural gas and is in marked contrast with the majority's holding to the same effect.

In 1942, Independent Natural Gas Company, when it was a wholly-owned subsidiary of Phillips, and, as a matter of practical operation but a department of Phillips, applied to this Commission for, and received a certificate of convenience and necessity, under the "grandfather clause" of Section 7 of the Act, authorizing its

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continued operation of the 21-mile line in the West Panhandle field from the Gray Plant property line to Northern's

[16]Exhibit 28, p. 26.

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facilities. This line is a direct continuation of Phillips' 21-mile line from Wheeler booster to Gray Plant, one of the seven lines in issue. There is no valid reason for considering one segment of the through line, from Wheeler booster to Gray Plant as a gathering line and the other segment from Gray Plant to Northern, as a transmission line for the transportation of natural gas in interstate commerce within the meaning of the Natural Gas Act.

The majority, while agreeing with the statement of facts, find that all of the seven lines are "gathering" lines or "incidents of gathering." This holding by the majority is not supported by the evidence, nor is it consonant with prior decisions of this Commission.

In the case of *Arkansas Louisiana Gas Company*, 7 F.P.C. 766 (1948), the Commission classified a line leading from the field separators into the Columbia gasoline plant of Arkansas Fuel Oil Company, an affiliate, as a transportation line. In that case Arkansas Louisana applied for a certificate of convenience and necessity to construct the line, consisting of 16.3 miles of 6" and 6-5/8" diameter pipe; and also to construct certain appurtenant facilities including three miles of 2-, 2-1/2, 3-, and 4-inch pipe lines to connect eight wells to separators in the Haynesville field. The Commission clearly distinguished between the small diameter lines connecting the wells to the separators from the 16.3 miles intervening between the separators and the gasoline plant when it said:

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The evidence of record also shows that th
purtenant facilities consisting of approximately 3
of 2-, 2-1/2-, 3-, and 4-inch pipe lines to connect
wells in the Haynesville field, together with m
dehydrator, and separator installations in the field,
be used only for the production and gatherin
natural gas and are not subject to the jurisdictio
the Commission. *Id.* p. 767

The Commission then proceeded to order:

(A) A certificate of public convenience and ne
sity be and the same is hereby issued authorizing
plicant to construct and operate the facilities her
before described, with the exception of appurter
facilities consisting of approximately 3 miles of
2-1/2-, 3-, and 4-inch pipe lines to connect eight w
in the Haynesville field, together with meter,
hydrator, and separator installations in the field, al
more fully described in the application in these p
ceedings and the exhibits appended thereto, for
transportation and sale of natural gas as therein
forth, subject to the jurisdiction of the Commissi
upon the terms and conditions of this order. *Id.* p.

The majority are persuaded, so they say, by th
review of the legislative history of the Act, that the A
was not intended to encompass the activities of compan
whose operations are confined to production and gatheri
including the *transportation and sale* of gas as a part
that business. Manifestly it is not the general charac
of the business of a company which determines its stat
under the Natural Gas Act. Jurisdiction attaches by reas

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of specific acts or transactions in which such company is engaged." Furthermore, the fact that Phillips is engaged in jurisdictional acts or transactions does not mean that all of its business and transactions fall within the regulatory power of this Commission.

It is my opinion, from the record before us, that Phillips Petroleum Company transports gas in interstate commerce wtihin the meaning of the Natural Gas Act.

[10918]

IV.

I turn now to the second ground of the majority's holding which is agreed to by all members of the majority. It is as follows: that the sales are not subject to our jurisdiction because "they are so closely connected with the local incident of that process as to render rate regulation by the Commission inconsistent or a substantial interference with the exercise by the affected States of their regulatory functions."

The second ground is patently bottomed on the Supreme Court's statement in the *Interstate* case that (331 U. S. at p. 690):

> * * * where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as

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"Cf. Jersey Central Power and Light Co. v. Federal Power Commission, 319 U. S. 61, 73 (1943).

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to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach.

It will be noted that the Court specifies two elements each of which is a condition precedent. If either of them is not present the statement clearly is inoperative. It will be noted too that the Supreme Court recognized that the above-quoted language might be improperly interpreted as a broad exemption from the Commission's jurisdiction and warned that the:

> * * * *conflict must be clearly shown.* Exceptions *to the primary grant of jurisdiction in the section are to be strictly construed.* It is not sufficient to defeat the Commission's jurisdiction over sales for resale in interstate commerce *to assert* that in the exercise of the power of rate regulation in such cases, local interests may in some degree be affected. *Id.* at p. 690-91.

[10919]

In the light of this explicit warning by the Supreme Court it would not be too much to expect that the majority would not be content with mere assertion, but would point to the evidence of record showing the conflict, would delineate with particularity the "local incidents" of the process of "production or gathering" which would be interfered with, and would show how the regulation of the sales would prevent the exercise by the States of their lawful authority over production or gathering. As was

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said in *Mississippi River Fuel Corp.* v. *Federal Power Commission*, 163 F. 2d 433, 439:

> * * * The discretion and judgment confided in the Commission must be exercised upon facts and for reason. The duty of review imposed upon the courts requires that the facts be found and the reasons stated. Otherwise, the courts cannot determine whether a given action is or is not arbitrary.
>
> The Congressional provisions extend to complicated, difficult matters as well as to simple questions. The courts cannot evade their responsibility merely because the subject matter is obscure. And neither can they be required to probe the minds of the agency for unfound facts or unexpressed reasons. The coordination of the two functions of administrative discretion and judicial review required that the facts upon which the discretion is exercised, and the reasons, be clearly and completely stated. When the matter is complicated, the necessity is greater.

But the majority have not heeded either the Supreme Court or the Court of Appeals. The majority opinion will be searched in vain for facts or reasons showing conflict. The majority simply rest on mere assertion—their own *ipse dixit*.

The absence in the majority opinion of an analysis of the evidence lies in the fact that the evidence proffered by the intervening

[10920]

states establishes, as shown by the following analysis, that there is no conflict, or interference with the states in the exercise of their lawful authority.

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Testimony on the subject of conflict and interference was received from representatives of the State of Texas, New Mexico and Oklahoma. Commissioner William J. Murray Jr., and Chief Engineer Jack K. Baumel testified in behalf of the Railroad Commission of Texas. Commissioner Richard B. Spurrier presented evidence for the New Mexico Oil Conservation Commission and Commissioner Ray C. Jones and Engineer Elmer Capshaw testified in behalf of the Oklahoma Corporation Commission. During the course of their direct examination, some of these witnesses were questioned *upon the basis of hypothetical situations predicated upon assumed future actions by the Federal Power Commission and the respective State regulatory agencies or both*, and they asserted upon the basis of such hypotheses that conflicts and interference would result.[11]

[10921]

Surmise, conjecture or speculation concerning possible future conflict provides no basis for denying jurisdiction under the Natural Gas Act. It is a well established prin-

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[11]In this connection, Commissioner Murray's qualifications to his answers are of particular significance:

Q. In other words, your answers were not general answers but were specific answers to the questions you had before you at the time you made your answer?

A. Yes, sir; even though they were making specific assumptions, they were still rather general, but not so general as to say if the Federal Power Commission takes any jurisdiction over Phillips would a conflict result, and I never did intend to say any jurisdiction would result.

Q. You mean any conflict would result?

A. That is right, if they took any jurisdiction, but I can't quite conceive, I may be in error, of what jurisdiction they would take over Phillips without conflict resulting. T. 3764.

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ciple of law that the alleged conflict must be "so direct and positive that the two acts cannot be reconciled or consistently stand together."[15] As the Supreme Court succinctly stated in *Panhandle Eastern Pipe Line Co.* v. *Michigan Public Service Commission*, 341 U. S. 329 (1951) when the issue of dual regulation by the Michigan and Federal Power Commissions was before it (at p. 336):

> • • • There are no opposing directives and hence no necessity for us to resolve any conflicting claims as between state and federal regulation.

In this proceeding, which has been limited solely to the question of jurisdiction, no conflict could possibly arise from a finding that jurisdiction exists. Actual regulation of Phillips' rates by the Federal Power Commission is a necessary prerequisite to an issue of conflict with the regulatory functions of a State agency. Mere speculation as to hypothetical situations that might arise does not meet the test that "conflict must be clearly shown" and may not rest on assertion alone.

The evidence is conclusive that the alleged issue of conflict and interference between regulation by this Commission and the several producing State interveners has already received a thorough answer, since there are a number of natural gas companies which engage

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[15] **Kelly v. Washington**, 302 U. S. 1, 10 (1937); **Interstate case, supra; United States v. Appalachian Electric Power Co.**, 311 U. S. 377, 422-23 (1940); **Missouri Pacific Railway Co. v. Larabee Mills**, 211 U. S. 612, 623 (1909).

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in substantial field operations similar and adjacent to those of Phillips, and which are subject to the jurisdiction of this Commission and also subject to the jurisdiction of the State regulatory agencies of Texas, Oklahoma and New Mexico."

The evidence is conclusive that no single instance of conflict or interference has occurred during the past 13 years since the passage of the Natural Gas Act, although these companies have been fully regulated by this Commission and likewise have complied with all of the requirements of the respective State agencies."[30] The majority and concurring opinions completely ignore these facts.

Moreover, these opinions are devoid of any explanation of why or how regulation of Phillips' rates by this Commission would conflict with State regulation in view of the fact that this Commission's regulation of the rates of Panhandle Eastern Pipe Line Company, El Paso Natural Gas Company, Cities Service Gas Company, Natural Gas Pipeline Company of America, Canadian River Gas Company, Northern Natural Gas Company, West Texas Gas Company

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[30]T. 5599-5602, 5736.

[31]With some variation the regulations of State conservation agencies include the location, spacing, drilling, testing, casing, abandonment and capping of wells, the control of rates of production, the protection of correlative rights through proration or "ratable take" or "common purchaser" and the prevention of physical waste of gas. It is undisputed in this record that the Federal Power Commission has never issued any rules, regulations or orders concerning such matters. It is also undisputed that no rules, regulations or orders of the Commission have conflicted with any rules, regulations or orders of the conservation agencies of New Mexico, Oklahoma and Texas relating to the physical production, gathering or processing activities of natural-gas companies subject to the jurisdiction of the Commission. T. 5587, 5594-99.

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and other companies which produce, gather and process natural gas has not conflicted with the activities

[10923]

of the several intervenor State conservation commissions."[9]

Commissioner Spurrier, recognizing the inconsistency of an assertion of conflict if the Federal Power Commission were to take jurisdiction over Phillips, testified on cross-examination that:

> * * * if Phillips Petroleum Company is a producer and a purchaser and if El Paso is also a producer and purchaser—now, if those are the only two things we are taking into consideration and if that is so, why sure, if one company comes under the F. P. C., so should the other one, if those two things only are true.
>
> That is basic, I think, what is fair for one must be fair for the other one. T. 4115-16).

In the course of his cross-examination, Commissioner Murray testified that he did not know of any case where the Federal Power Commission by any specific thing it has done in relation to a natural-gas company which produces gas in Texas, by order, regulation or effort has sought to interfere with the free exercise of power which he felt his Commission should have over the production of gas in Texas."[10]

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[9] In this connection Chief Engineer Baumel testified that regulation by the Federal Power Commission of these companies has not conflicted or interfered with the authority exercised by the Texas Railroad Commission. T. 4244-54. See also T. 4539-40, 4090-2, 4097-98, 4100.

[10] T. 3864-65.

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Commissioner Jones of the Oklahoma Corporation Commission testied:

Q. If at such time as your minimum rate is set at one level and the federal rate is set at any point above that, at that time could there be any interference with the jurisdiction of your Commission?

A. I can think of none right at this time.

Q. And the only possible conflict could arise if you desired to raise your minimum above the rate that had been fixed by the Federal Power Commission?

[10924]

A. I don't know whether that would be the only possible conflict. I don't know. I couldn't answer that question right now.

Q. Do you now personally know of any other possible conflict?

A. Not without giving it some thought, I can't think of any. T. 4539-40

Upon cross-examination, Commissioner Spurrier was asked specifically whether any conflict had ever been called to his attention concerning the regulations issued by the Federal Power Commission and the regulations of the New Mexico Oil Conservation Commission with specific reference to Southern Union Gas Company and El Paso Natural Gas Company—those companies being engaged in production, gathering and processing operations in New Mexico and subject to regulation by both Commissions.

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Mr. Spurrier replied in the negative and further stated he would know of any such conflict if it existed."

Witness Baumel was questioned concerning regulation by the Federal Power Commission with respect to a number of natural gas companies which were likewise subject to regulation by the Texas Railroad Commission as producers, gatherers and processors of natural gas. His answer in all cases brought out the fact that no conflict had ever occurred. For example:

Q. And United Gas Pipe Line, you know, is a natural gas company under your jurisdiction. As far as you know, nothing that the Federal Power Commission has done in its regulation of United Gas

[10925]

Pipe Line has interfered with your proper authority and regulation of these gasoline plants, or gathering lines, or anything has it?

A. The same answer I gave before would be the same in this case in that insofar as gathering and processing and production of gas there hasn't been any conflict, no.

Q. There hasn't been any conflict at all, so far as you know?

A. No, no, to date I don't know of any. T. 4253.

Furthermore, Mr. Baumel was asked specifically whether his Commission had the power to regulate a maximum price at which Phillips could sell gas at the Sherman plant to Michigan-Wisconsin. He answered:

"T. 4090-92, 4100.

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> I think we went over it that at the present time the legislature never has given the Railroad Commission power to set any price, minimum or maximum or whatsoever, so how can you ask me whether or not it is going to conflict. It wouldn't conflict if we don't have any power to set the price. T. 4286.

The evidence overwhelmingly demonstrates the absence of any known conflict or interference by the Federal Power Commission with the activities and regulation by these three State agencies during a period of 13 years. The states have conducted their conservation activities with no known conflict between the two jurisdictions.

Moreover, even representatives of the producing States recognized that consumers were entitled to protection against unreasonable charges for gas made in the producing areas.

[10926]

Commissioner Murray of Texas after first stating that he did not think his Commission had the authority to fix a floor or minimum price and that he was opposed to price fixing at the producer level, stated that if a producing State fixed a floor or minimum price it was proper that some authority protect the consuming States so far as a ceiling or maximum price was concerned."

The impact of regulation of the price of natural gas upon conservation was the subject of considerable testimony. *But all witnesses testified that price would only*

"T. 3738-40, 3758-59.

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adversely affect the conservation efforts of the States if it were "unduly depressed" to a point where the producers would not recover their costs plus a reasonable return."

Furthermore, it was testified by witness Capshaw of the Oklahoma Commission that the price of gas was not the most important or determining factor in producing gas from marginal acreage."

The testimony shows that the availability of markets—not price—was responsible in large part for the saving of casinghead gas that otherwise would be vented or flared." Price increases by producers did not bring about a greater demand on the part of El Paso for casing-head gas with which to fill its pipeline requirements. To the contrary, the demands for gas created

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by El Paso's markets in Arizona, New Mexico and California placed the producers in a position to sell their casinghead gas at higher prices than would be otherwise obtainable.

It is also to be noted that the Eunice, Fullerton, Goldsmith and Crane processing plants were constructed by Phillips and placed in operation years before Phillips delivered gas to El Paso at the discharge side of these plants."

"Murray, T. 3723; Spurrier, T. 4125-7; Baumel, T. 4227-8; Capshaw, T. 4529-30, 4716-17.

"T. 4723-24.

"T. 3798, 3957-8, 4106, 4180-1.

"T. 4847, 5044-54, 5042, 5044.

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Huge volumes of residue gas were flared during these earlier years after liquid hydrocarbons had been extracted at the plants. Of course, as Phillips became able to obtain revenues from the residue gas then being flared, the necessity for flaring diminished and has now practically disappeared. Furthermore, the laudable action of the Texas Railroad Commission shutting in oil production in the fields supplying these plants furnished additional impetus towards stopping this waste of gas. But no valid conclusion can be drawn from these circumstances that regulation by this Commission of the sales price to El Paso would cause Phillips to flare the residue gas from these plants rather than sell it.

In the light of this evidence it is indeed a shock to find the majority insisting that even though Phillips be allowed a reasonable return on its actual legitimate investment, the fixing of maximum rates by the Federal Power Commission for its sales would run counter to State conservation efforts to insure maximum recovery of

[10928]

gas, on the theory that the "higher the profit" the longer it is economical to operate its wells prior to abandonment. While the majority err in failing to distinguish between the costs of production and profits, I am more concerned with the philosophy expressed. Apparently the majority believes no limit should be imposed on profits arising from

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the production and interstate sale of natural gas.[9] Should this philosophy prevail, regulation by the Federal Power Commission of the natural gas industry would become a futile effort and should logically be abandoned.

[10929]

Only a few short years ago, the Commission reduced the rates of Hope Natural Gas Company. The decision of the Supreme Court, *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591 (1944), upholding this Commission's action is universally recognized as a landmark decision in the field of public utility regulation. One of the major issues decided by the court was raised by the State of West Virginia. West Virginia contended that the result achieved by the rate order of the Commission "brings consequences which are unjust to West Virginia and its

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[9]The record shows that 60 natural gas companies subject to the Commission's jurisdiction are engaged in the production of natural gas. The Commission has reduced the rates of a number of these companies, thus limiting their profits to a reasonable rate of return on their net investment in producing as well as other property. Some of the more important were:

Canadian River Gas Co.	3 FPC 32	$ 561,000
Cities Service Gas Co.	3 FPC 459	4,445,871
El Paso Natural Gas Co.	3 FPC 851	526,002
Hope Natural Gas Co.	3 FPC 150	3,609,857
Interstate Natural Gas Co., Inc.	3 FPC 416	1,100,345
Kentucky-West Virginia Gas Co.	7 FPC 112	422,406
Natural Gas Pipeline Co. of Am.	2 FPC 218	3,750,000
Natural Gas Pipeline Co. of Am.	3 FPC 814	2,750,000
Northern Natural Gas Co.	3 FPC 377	2,087,000
Ohio Fuel Gas Co.	5 FPC 144	632,985
Panhandle Eastern Pipe Line Co.	3 FPC 273	5,094,000
United Fuel Gas Co.	5 FPC 279	1,753,000
		$26,632,466

If high profits to producers are necessary to aid conservation as the majority claim, it cannot be reasonably contended that the impact of regulation upon conservation is any less severe because the sales by these companies were made in part at some distance from the producing fields.

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citizens" and which "unfairly depress the value of gas, gas lands and gas leaseholds, unduly restrict development of their natural resources and arbitrarily transfer their properties to the residents of other States without just compensation therefor." West Virginia strenuously urged that a reduction in leasehold values would jeopardize its conservation policies in three respects, (1) exploratory development of new fields would be discouraged; (2) abandonment of low-yield high-cost marginal wells will be hastened; and (3) secondary recovery of oil will be hampered.

The court said, however, in answer to the position taken by West Virginia, at page 609:

> We have considered these contentions at length in view of the earnestness with which they have been urged upon us. We have searched the legislative history of the Natural Gas Act for any indication that Congress entrusted to the Commission the various considerations which West Virginia has advanced here. And our conclusion is that Congress did not.
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> * * * * *
>
> **[10930]**
>
> We cannot find in the words of the Act or in its history the slightest intimation or suggestion that the exploitation of consumers by private operators through the maintenance of high rates should be allowed to continue provided the producing states obtain indirect benefits from it. (p. 612)
>
> * * * * *
>
> We do not mean to suggest that Congress was unmindful of the interests of the producing states in their

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> natural gas supplies when it drafted the Natural Gas Act. * * * But it left the protection of those interests to measures other than the maintenance of high rates to private companies. If the Commission is to be compelled to let the stockholders of natural gas companies have a feast so that the producing states may receive crumbs from that table, the present Act must be redesigned. Such a project raises questions of policy which go beyond our province. (pp. 612, 613-14)

Similar contentions were advanced by Canadian River Gas Company before the Supreme Court in opposing a Commission rate reduction order.[81] In its opinion, the court referred to what it had previously said in the *Hope* decision, *supra,* in response to the arguments advanced by the State of West Virginia, and again rejected such contentions. The self-same arguments were made by the States of Oklahoma and Texas appearing *amicus curiae* in the *Interstate* case, *supra,* and once more they failed to convince the court. Referring by a footnote to what it had said in both the *Hope* and *Canadian River* cases on the subject, the court pointed out (331 U. S. at p. 691):

> It is not sufficient to defeat the Commission's jurisdiction over sales for resale in interstate commerce to assert that in the exercise of the power of rate regulation in such cases, local interests may in some degree be affected.

Nothing which the court has said in subsequent cases, *e. g.,* the *Cities Service* case, *supra* (1950), has indicated its

[81] Canadian River Gas Co. v. Federal Power Commission, 324 U. S. 581.

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departure from the law it laid down in the *Hope*, *Canadian River* and *Interstate* cases.

[10931]

The *Cities Service* case involved the legality of an order of the Oklahoma Corporation Commission fixing a minimum wellhead price of 7¢ per Mcf for the Guymon-Hugoton Field in aid of conservation. No question of conflict was involved. The Supreme Court clearly pointed that out when it said (at p. 188):

> "Appellant does not contend that the orders conflict with the Federal authority asserted by the Natural Gas Act, 52 Stat. 821 (1938), 15 U. S. C. Sections 717, *et seq.* (1938). The Federal Power Commission has not participated in these proceedings. Whether the Gas Act authorizes the Power Commission to set field prices on sales by independent producers or leaves that function to the states, is not before this Court.

The majority, after first relying on this case to suggest that the state was under no constitutional disability to regulate sales at the wellhead for resale in interstate commerce in the interest of conservation, state that the Court's decision "left undecided" the very question at issue here. This is not so. *The truth of the matter is that the question of the regulation of sales in interstate commerce for resale by so-called independent producers under the Natural Gas Act was not before the court;*" but, it had been

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"See also statement as to the opinion of Mr. Justice Black, **Cities Service Gas Company v. Peerless Oil & Gas Company**, supra, at p. 189.

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decided in the *Interstate* case, as shown above, contrary to the holding of the majority here.

The sales by Phillips here in issue are essentially matters of national concern. They are not now, nor have they ever been regulated by the State agencies, nor could they be so regulated under the law and the Constitution. Furthermore, none of these sales by Phillips is subject to any minimum price orders of the State agencies;

none is made at the wellhead."[9] The alleged conflict is a myth and the Commission's jurisdiction must be held to attach to Phillips' sales.

V.

No opinion in this case is complete without a review of the history of the Commission's many and varied decisions on the meaning of the exemption of "production or gathering" in Section 1(b) and the history of this particular case. Indeed, only then can the majority's holding be viewed in proper perspective.

In *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co. et al.*[10] reference was made by the Supreme Court to

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[9]The Texas Railroad Commission does not have power to set minimum prices. T. 4286. The New Mexico Oil Conservation Commission has not prescribed a minimum price. T. 4063. The only sales made in Oklahoma are to Cities Service and no minimum price orders apply to the particular fields from which this gas is produced.

[10]337 U. S. 498 (1949), 516-517, note 25.

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> * * * uncertainty of opinion in the Commission as to the reach of the Act toward sales by independent producers and gatherers to natural-gas companies for transportation in interstate commerce.

While the Courts have charted a clear and consistent course, the Commission has been consistent only in its inconsistency. As was so aptly said during the debate on the Kerr Bill, S. 1498:

> * * * the Federal Power Commission has wobbled all over the face of the earth with respect to this problem."

It appears from the majority opinion that the Commission has now made the "full circuit" to the *Columbian Fuel* decision," and its present policy embraces the same abnegation of its authority which prevaded the adoption of Order No. 139 in August 1947.

[10933]

The "circuit" is as follows:

In June 1940, in the *Columbian Fuel Corporation* case, the Commission (Commissioners Draper, Manly, Olds, Seavey, with Commissioner Scott dissenting) held that it

> * * * was not the intention of Congress to subject to regulation under the Natural Gas Act all persons whose only sales of natural gas in interstate commerce,

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"Remarks of Senator O'Mahoney on the Kerr bill which would have exempted sales such as here involved from the jurisdiction of the Commission. Cong. Rec., 81st Cong. 2d Sess., p. 4171.

"Columbian Fuel Corporation, 2 F. P. C. 200. (1940)

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as in this case, are made as an incident to and immediately upon completion of such person's production and gathering of said natural gas and who are not otherwise subject to the jurisdiction of this Commission. (2 F. P. C. 208)

The Commission was not, however, without misgivings regarding its decision, for it stated:

> Further experience with the administration of the Natural Gas Act may reveal that the initial sales of large quantities of natural gas which eventually flow in interstate commerce and by producing or gathering companies which, through *affiliation, field agreement,* or *dominant position in a field,* are able to maintain an unreasonable price despite the appearance of competition. Under such circumstances the Commission will decide whether it can assume jurisdiction over arbitrary field prices under the present Act or should report the facts to Congress with recommendations for such broadening of the Act and provision of additional machinery as may appear necessary to close this gap in effective regulation of the natural-gas industry. (2 F. P. C. 208)

Before the Commission had decided the *Columbian Fuel* case, the Commission in Docket No. G-159 had, in March 1940, instituted an investigation of the Peoples Natural Gas Company to enable the Commission to determine whether Peoples was a natural gas company within the meaning of the Act and whether any of its rates and charges subject to the Commission's jurisdiction were unjust or unreasonable. Following initiation of the investigation, the

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Commission's representatives repeatedly requested access to the books and records of Peoples, but the

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requests were refused. In 1941 the Commission held hearings on the nature of the company's operations, at which hearings subpoenas duces tecum were returnable. In August 1941, after Peoples' continued refusals to honor subpoenas duces tecum, the Commission sought an order from the District Court of the United States for the District of Columbia directing production of the books and records. The District Court granted the Commission's request although Peoples there contended that its sales were not subject to the Commission's jurisdiction by reason of the exemption in Section 1(b) inasmuch as its sales were made at the termini of its gathering lines. It also relied on the Commission's decision in the *Columbian Fuel* case, which by that time had been decided.

On appeal by Peoples to the United States Court of Appeals for the District of Columbia Circuit, Peoples made the same contentions. The Court of Appeals affirmed the District Court's Order.[37] In so doing, it expressly held that the sales in question were sales in interstate commerce for resale and subject to the provisions of the Natural Gas Act. The Court at the same time expressed disapproval of the Commission's decision in the *Columbian Fuel* case, saying (at p. 155):

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[37]Peoples Natural Gas Co. et al. v. Federal Power Commission, 127 F. 2d 153 (1942).

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> We cannot disregard the plain language of the Act because the Commission at one time interpreted it narrowly • • •

The majority of necessity seek to distinguish the *Peoples* case and in so doing mistakenly imply that the Commission acted to terminate the proceedings after hearings had been held subsequent to the Court decision. That is not the fact.

[10935]

Upon denial of a petition for a writ of certiorari by the Supreme Court, the Commission's staff was granted access to the books and records and conducted an examination of them. During the course of the examination of the books, Peoples and New York Natural began certain rearrangements of their joint operations and later thereby discontinued the jurisdictional sales which were under investigation. Upon the recommendation of the staff, the investigation was suspended in 1944, and terminated in 1946 upon further recommendation of the staff that the change in operations by Peoples had been completed.

In April 1943, the Commission (Commissioners Draper, Manly, Olds, Scott and Seavey), following the decision in the *Peoples* case, took jurisdiction over natural-gas sales in the Monroe field of Louisiana by Interstate Natural Gas Company, to three interstate pipeline companies, one of which was affiliated with Interstate. The Commission, after hearing, ordered a reduction in Interstate's sales price from an average of 7-1/2¢ per Mcf to 4.66¢ per Mcf. In its opinion, *supra*, the Commission said at p. 421:

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The negative language in section 1(b) upon which the Interstate Company relies for its claimed exemption involving these sales provides that the Commission shall not have jurisdiction over the "production or gathering of natural gas." When the distinction between *production and gathering of* natural gas, and the *sale* of such gas in interstate commerce is kept in mind, effect is given to the Congressional objective. *The Commission is bound to obey the command of Congress to regulate these sales in interstate commerce for resale to the three pipe line companies. Such is clearly the implication of the decision of the Circuit Court of Appeals in Peoples Natural Gas Co.* v. *Federal Power Commission*, 127 F. 2(d) 153, cert. den. 316 U. S. 700.

[10936]

The decision of the Court of Appeals for the 5th Circuit on August 3, 1946 affirmed the Commission's decision. Thereafter Interstate secured a review of the Court of Appeals decision by the Supreme Court.

The decision of the Commission, and that of the Court of Appeals sustaining it, brought forth a storm of protests from producing interests and officials of producing States. Bills were introduced in the Congress[11] to curtail the Commission's jurisdiction. These bills were designed to remove from Commission jurisdiction all sales of natural gas made in the field, whether by pipe lines admittedly subject to the Natural Gas Act or by so-called "independents" or non-affiliates.

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[11]H. R. 2185, H. R. 2235, H. R. 2292, H. R. 2569 and S. 734, 80th Cong.

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Apparently influenced by this threat to its general jurisdiction, the Commission[9] reversed the position which it took in the *Interstate* case, reverted to the *Columbian Fuel* theory, and in its brief before the Supreme Court took a different position from that which it had advanced before and which had been endorsed by the Circuit Court.[10] It endeavored to distinguish between the sales by Interstate to the three pipe-line companies and similar sales which might be made by so-called independent producers.

[10937]

To buttress its changed position, the Commission[11] decided several inactive cases by disclaiming jurisdiction over sales by non-affiliated companies or arm's-length sales made in the field.[12]

The Supreme Court's decision[13] disregarded this effort

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[9]The Commission was composed of Commissioners Draper, Olds, Sachse, Smith and Wimberly.

[10]In fact the Commission's brief in opposition to petition for writ of certiorari does not reflect the changed position of the Commission.

[11]The Commission consisted of Commissioners Draper, Olds, Smith and Wimberly.

[12]**The Fin-Ker Oil and Gas Production Company,** 6 F. P. C. 92 (May 20, 1947), **R. J. and D. E. Whelan,** 6 F. P. C. 672 (May 20, 1947), both filed in 1944 and dormant until the date of the decision, and **The Chicago Corporation,** 6 F. P. C. 98 (May 28, 1947) in an active but incompleted status at the time of the decision.

In its haste to record the new approach to Section 1(b), the Commission called for a premature report on the Chicago Corporation investigation, the concluding paragraph of which had this rather significant statement by C. W. Smith, Chief, Bureau of Accounts, Finance and Rates:

• • • It would therefore appear that if the policy of the Commission in respect to jurisdictional matters is as set forth in the last brief before the Supreme Court of the United States in the Interstate Natural Gas case, the Commission should not attempt to regulate Chicago's interstate rates, but instead should dismiss the instant proceeding.

[13]**Interstate Natural Gas Co. v. Federal Power Commission,** 331 U. S. 682.

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on the part of the Commission to deprecate the coverage of the Act over all sales in interstate commerce of natural gas for resale, but instead, on June 16, 1947, by unanimous opinion and decision, affirmed the decision of the Court below."

In the meantime, the Commission was proceeding with an investigation of the natural-gas industry which was designed to aid

[10938]

the Commission in carrying out its authority and duties in the regulation of the industry, and also to determine whether further legislation should be recommended to the Congress. This investigation developed into a controversy over legislation proposed by the industry to curtail drastically the Commission's authority. In 1948 two diametrically opposed reports were issued."

Following the Supreme Court decision in the *Interstate* case, the Commission, then composed of four members, unanimously agreed to support the Priest Bill (H. R. 4099), which would have exempted from regulation arm's-length sales of natural gas by producers or gatherers not otherwise natural-gas companies. The natural-gas industry, however, favored the Moore-Rizley Bill (H. R. 4051), which passed the House but was in Committee in the Senate at the conclusion of the 80th Congress.

"The decision applied with equal force to the Commission's **Chicago Corporation, Fin-Ker** and **Whelan** status determinations, **supra.**

"Natural Gas Investigation, Docket G-580; Report of Commissioners Draper and Olds; Report of Commissioners Smith and Wimberly. There was one vacancy on the Commission at the time.

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The Congress having adjourned without enacting an amendment to the Natural Gas Act, the Commission was left with the clear duty to apply its own decision in the *Interstate* case which had received unanimous affirmation from the Supreme Court. But on August 7, 1947, with Commissioner Draper dissenting, the four-member Commission adopted Order No. 139 which in effect repudiated the decision of the Supreme Court in the *Interstate* case."

[10939]

The order read in part:

> For the purpose of administering the Natural Gas Act, the Commission will construe the exemption contained in Section 1(b), to the effect that the provisions of the Act shall not apply to the "production or gathering" of natural gas, as including arm's-length sales of natural gas by independent producers and gatherers, made during the course or upon completion of production and gathering. The Commission, consistent with this construction, will not assert jurisdiction over such producers and gatherers who might be subject to jurisdiction solely because of such sales.

Under this order, the Commission purported to grant several exemptions from its jurisdiction," although the Commission's Bureau of Law as well as leading lawyers

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"See: **Administrative Abnegation in the Face of Congressional Coercion: The Interstate Natural Gas Company Affair**, 23 Notre Dame Law. 173

"**La Gloria Corporation**, 7 F. P. C. 349 (January 30, 1948); **Superior Oil Company**, 7 F. P. C. 627 (May 11, 1948); **General Crude Oil Company**, 7 F. P. C. 1024 (November 10, 1948); and **Delhi Oil Corporation**, 8 F. P. C. — (March 10, 1949, G-1168).

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in the industry held the order to be a nullity.[9] However, in 1948, during the course of the disclaimer of jurisdiction under Order No. 139, in a seemingly contradictory spirit, the Phillips investigation, the proceeding now before us, was instituted by the Commission.

In April 1949, the Commission[10] reverted to the position taken in its opinion in the *Interstate* case and made reports to

[10940]

the Committee on Interstate and Foreign Commerce of the House on the Lyle-Harris Bills, H. R. 79 and H. R. 1758, recommending that legislation *not* be enacted which would take from this Commission the jurisdiction which the decision of the Supreme Court in the *Interstate* case held it possessed. These bills would have excluded from regulation all non-affiliated or arm's-length sales of natural gas in interstate commerce made before the gas was delivered into the interstate facilities of a natural-gas company. Similar recommendations were made to the Senate Interstate and Foreign Commerce Committee in opposition to the Kerr Bill, S. 1498.

Hearings on this legislation were held by the respective House and Senate Committees. Extensive testimony in opposition to the legislation was presented by the Commission and in the Senate hearings each Commissioner

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[9]Hearings before Interstate and Foreign Commerce Committee, United States Senate, 81st Cong., 1st Sess., S. 1498, p. 500.

[10]The majority consisted of Commissioners Buchanan, Draper and Olds. Commissioners Smith and Wimberly submitted a minority report.

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was questioned concerning his views on the bill. Three Commissioners (Draper, Olds and Buchanan) took the position that the Commission had the authority and jurisdiction to regulate wholesale sales made in interstate commerce during and after production or gathering,[*] and that such

[10941]

being passed on to the consumers.

This legislation was passed by the Congress in March 1950. A majority consisting of Commissioners Wallgren,

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[*]Senator Myers. Do you think the consumer's interest would be adequately protected if this act was amended?

Mr. Draper. I think it would be very doubtful, Senator. Your act would still stand as it is, saying that the transportation and sale of natural gas in interstate commerce (footnote continued)

[10941]

[*](footnote continued) is affected with the public interest and should be subject to Federal regulation. If you are going to confine those sales just to the few natural-gas pipe-line companies, and then all of the other people, the so-called independents are going to be free—well, I think you have a very undesirable situation there as to that.

Senator Myers. It is your opinion that if the field sales of natural gas are not regulated, all field sales are not regulated, that the consumer may very well be adversely affected?

Mr. Draper. Yes; it is quite possible.

• • •

Senator Myers. But you are still of the opinion that the large producers, the large independent producers—

Mr. Draper. I think they should be.

Senator Myers (continuing). Should be regulated?

Mr. Draper. Absolutely.

Senator Myers. You are of the opinion that you have that authority and jurisdiction at the present moment as the result of the Interstate case?

Mr. Draper. Yes, by reason of the interpretation by the Court in the Interstate case. (Senate Hearings before Committee on Interstate and Foreign Commerce United States Senate, 81st Cong. 1st Sess., on S-1498, p. 397.)

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regulation was necessary to prevent unreasonable charges Draper and Buchanan favored a veto of the enrolled bill (H. R. 1758).

The President on April 15, 1950, vetoed the bill, his veto message showing a keen appreciation of the problems and the public interest involved.

[10942]

On July 11, 1950, the Commission adopted Order No. 154 rescinding Order No. 139 and issued a statement of policy in connection therewith.[51] In Order No. 154, Commissioners Wallgren

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[51] Statement of Policy Regarding Regulation of Producers and Gatherers of Natural Gas in Connection with Rescission of Order No. 139.

In the present Congress, a bill (H. R. 1758) designed to exempt producers and gatherers from the provisions of the Natural Gas Act was passed, but was vetoed by the President and did not become law.

The President in his veto message returning H. R. 1758 to the House of Representatives, stated that he had no doubt the Commission would operate reasonably and in the public interest in carrying out the present law. That is and will continue to be the policy of the Commission.

Accordingly, the following statement is issued in order that the public may be advised of the Commission's policy in connection with the rescission of Order No. 139:

It is not the intention of the Commission to inaugurate a general investigation respecting existing rates charged by producers and gatherers. Where, however, the sales of individual producers or gatherers have a material effect on interstate commerce and the rates therefor appear excessive, appropriate investigations will be undertaken. In this connection, the Commission at present has under investigation the interstate wholesale rates of Phillips Petroleum Company, one of the largest producers of natural gas, selling to interstate pipe lines.

Upon conclusion of further studies of the operation of producers and gatherers and of the administration involved in their regulation, the Commission plans to promulgate rules and regulations specifically applicable to them.

(s) **Mon C. Wallgren**
Mon C. Wallgren, Chairman

(s) **Thomas C. Buchanan**
Thomas C. Buchanan, Commissioner

(s) **Claude L. Draper**
Claude L. Draper, Commissioner

July 11, 1950

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Draper and Buchanan stated: "That the provisions of Order No. 139 were inconsistent with the requirements of the Natural Gas Act."

The decision of the majority in this proceeding in effect rescinds Order No. 154, reiterates Order No. 139, and returns to the policy expressed in the *Columbian Fuel* decision and, in the language of the Courts, once again. "disregard[s] the plain language of the statute." *Peoples Natural Gas Co.* v. *Federal Power Commission, supra,* p. 155.

The long history of the Phillips case also reflects the Commission's vacillation in regulating wholesale sales in interstate commerce by so-called independent producers. The Phillips rate investigation had its genesis in the proceeding involving the issuance of a certificate of public convenience and necessity to Michigan-Wisconsin Pipe Line Company, Docket No. G-669. On October 11, 1946, during the course of that proceeding, the City of Detroit filed a motion for an order requiring that Phillips Petroleum Company, because of the nature of its sales contract as the sole supplier of Michigan-Wisconsin be made a party, and further urged that Phillips be declared a natural-gas company subject to the jurisdiction of the Commission. In its opinion,[2] the Commission held that the question of whether Phillips is or is not a natural-gas company should be determined in a separate case, after a thorough investigation of Phillips' operations.

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[2] 6 F. P. C. 1 (January 17, 1947)

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An investigation of Phillips' rates and operations was instituted by the Commission's order of October 28, 1948.[4] On February 9, 1950, the Commission entered a further order specifying issues and fixing a date for hearing. It was recited that the City of Detroit had filed a letter complaint on January 16, 1950, alleging, among other things, that because of certain price increases in the contracts between Phillips and Michigan-Wisconsin, the additional annual cost of gas to the City of Detroit in the year 1953 would amount to approximately $1,770,000 as a minimum. It was recited that the Public Service Commission of Wisconsin had on January 19, 1950 also filed a complaint because amendments[5] to the original contract and supplemental contracts between Phillips and Michigan-Wisconsin provided for an approximate doubling of cost of gas to Michigan-Wisconsin since the project was certificated. The Wisconsin Commission asked this Commission to investigate these contractual arrangements between Phillips and Michigan-Wisconsin and to

> * * * take such action with respect thereto as may be appropriate and proper and which will result in a fair and just rate to distributing companies and ultimate consumers of natural gas in Wisconsin and states similarly situated.

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[4] 7 F. P. C. 983

[5] The amendments of August 9, 1948 and December 1, 1949 (Exhibits 11-O and 11-T) increased the base price of gas to Michigan-Wisconsin from 4.46c per Mcf to 7.593c per Mcf (14.65 p. s. i.).

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The order also referred to the field investigation made by the staff, which indicated that the amendment to the original contract and supplemental contracts between Phillips and Michigan-Wisconsin would

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raise the cost of gas to Michigan-Wisconsin over that provided by the original contract approximately $5,000,000 a year based upon the annual contract volume of 125,195,000 Mcf.

A hearing in this matter was set for March 20, 1950, but was continued several times at the request of Phillips[a] and finally commenced on April 3, 1951. However, on March 27, 1951, Phillips filed a motion to limit the issues to the question of whether or not it was a natural-gas company. On March 29, 1951, the Commission instructed the Presiding Examiner to hear evidence on only the jurisdictional issue[b] and supplemented that instruction by an order dated April 16, 1951, which granted Phillips' motion, although

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[a]Applications dated: March 2, 1950; May 1, 1950; June 15, 1950; July 6, 1950; August 11, 1950; September 11, 1950; December 15, 1950; this last application was granted, Order of December 19, 1950, sine die. (It required further action by the Commission to reschedule the hearing).

[b]Excerpts from Minutes of The Three Thousand and Forty-Seventh Meeting:

The Commission had before it the Motion to Limit Issues filed on March 27, 1951, by Phillips Petroleum Company in Docket No. G-1148, but decided to defer action thereon until the other parties to the proceeding have had the opportunity provided for by the Rules to file answers to said motion. Upon motion by Commissioner Draper, seconded by Commissioner Wimberly, the Commission (Commissioner Buchanan dissenting) directed that, in the meantime, the Examiner designated to preside at the hearing in said proceeding scheduled to commence on April 3, 1951, be instructed to confine the taking of testimony to Paragraph (A) (i) of the order of the Commission entered October 28, 1948, and issued October 29, 1948.

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the Commission on July 25, 1950" had dismissed a similar motion filed on July 6, 1950.

VI.

Before concluding, one additional aspect of the majority's opinion should be considered, namely, the assertion that the consumer has not been left to the mercy of Phillips or to other producers similarly situated.

The majority suggest in their opinion that the effect of their decision "does not leave the consuming public wholly without protection by" the Federal Power Commission. It is said that the price paid by pipe-line companies to producers can be reached by the Commission indirectly by denying a certificate of public convenience and necessity to a pipe-line company when it appears to the Commission that the cost of gas which the pipe-line company proposes to purchase from the producer "would result in unreasonable rates to ultimate consumers."

Additionally, the majority say that "in the exercise of its power to regulate the wholesale rates charged by interstate pipe-line companies, this Commission has ample authority to inquire into the reasonableness of all items

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[87]Excerpt from the Commission's order of July 25, 1950:

The Commission orders:

The Motion by Phillips seeking to limit the issues in this proceeding be and the same is hereby dismissed.

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of operating expense—including the cost of purchased gas —and to disallow, for purposes of rate-making, items of cost which are collusive or otherwise improperly excessive."

[10947]

The proposal of the majority for holding rates in check by denial of a certificate authorization is of no avail once authorization for the pipe line has been given and the line laid. As the majority well know, renegotiation of gas supply contracts at higher prices is going on constantly.

This very case reflects the futility of regulation by indirection. The contract for the sale of gas by Phillips to Michigan-Wisconsin, as amended on October 16, 1946, provided for a price of five cents per Mcf (16.4 p. s. i.) for gas delivered during the first five years after the time of first delivery, and an increase each succeeding five-year period of approximately one cent per Mcf. The contract further provided that Phillips was to have the right to terminate the contract upon "the failure of Buyer to commence, on or before January 1, 1949, the acceptance of deliveries of gas hereunder for delivery by Buyer for resale in one or more municipalities east of the Missouri River." The first municipality east of the Missouri River where Michigan-Wisconsin could deliver gas was Maryville, Missouri, a distance of 445 miles from the point of commencement of the pipe line in Hansford County, Texas.

The Commission authorized the project on November 30, 1946 and Michigan-Wisconsin began construction of the line in December 1947. In August 1948, due to short-

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age of steel and other circumstances, Michigan-Wisconsin had 160 miles of pipe, representing a cost of approximately $8,000,000, in the ground, and was faced with a grave danger that it would not be able to meet the deadline date in the contract.

[10948]

The evidence shows that Phillips took advantage of the provision in the contract respecting the dead-line date to force up the price of gas to Michigan-Wisconsin. As early as March 1947, in an inter-office memorandum between officials of Phillips entitled, "Increasing Price of Gas to Michigan-Wisconsin Pipe Line Company," three methods of forcing such price increase were proposed, including the following:

> 2. Do nothing until it may become apparent that Michigan-Wisconsin cannot meet the gas delivery date east of the Missouri River by January 1, 1949."

In August 1948, Phillips forced Michigan-Wisconsin to agree to a 70 per cent increase in the price of gas in exchange for a six months' extension of the date for beginning of acceptance of deliveries and the dedication of a small amount of additional acreage.

Additionally, most of the contracts between Phillips and the various pipe-line companies contain escalator clauses which call for automatic price increases periodically that will mean increased cost to ultimate consumers of many millions of dollars. Whether or not these escalator clauses

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"Exhibit 18

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will result in unjust and unreasonable charges by Phillips warrants investigation. In this connection, the pending rate increase before this Commission of Michigan-Wisconsin Pipe Line Company is significant." Of the increase requested of $3,700,00 per annum, Phillips will receive, according to the evidence herein, approximately $750,000, since the price of gas in the contracts with Michigan-Wisconsin" is geared, in part, to the rate which Michigan-Wisconsin charges its customers.

[10949]

As for the second indirect method of regulating such sales proposed by the majority, if it had any merit in law or substance, there would have been no necessity for the Natural Gas Act, since the State regulatory commissions which asked Congress for this legislation could have protected ultimate consumers from unreasonable rates caused by excessive charges for natural gas, by disallowing for the purpose of rate-making, as the majority suggest, "improperly excessive" payments made by the gas distributing utilities to the interstate pipe-line companies. This proposal, it may be added, is reminiscent of the arguments advanced as showing the lack of necessity for Part II of the Federal Power Act, conferring jurisdiction over wholesale sales of electricity in interstate commerce. But the fallacy of the argument was recognized; such indirect regulation, even if valid, would simply deny recovery of all costs in-

"Order dated April 24, 1951, Docket No. G-1678

"Exhibit 11-T

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curred by the pipe-line company, but would not relieve it of the obligation to pay the producer the price agreed upon, thereby draining the resources of the pipe-line company to its ultimate ruin.

This substitute regulatory scheme suggested by the majority is so shopworn, ineffective and impractical that it is difficult to believe that the majority's proposals are seriously advanced as a means of effective regulation.

[10950]

CONCLUSION

Phillips' production and sale of natural gas is on a mammoth scale, exceeding by far that of any other producer.[41] More than 60 percent of its sales (amounting to 500 billion cubic feet in 1950) are made to the five interstate pipe lines with which we are here concerned,[42] and these sales constitute approximately 15 percent of all of the natural gas transported in interstate commerce in the

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[41] T. 408, T. 5736.

[42]

	Location	Mcf
Michigan-Wisconsin Pipe Line Co.	Sherman Plant	77,153,738
Panhandle Eastern Pipe Line Co.	Hansford "	64,207,253
	Sneed "	
Independent Natural Gas Co.	Gray "	13,723,822
El Paso Natural Gas Co.	Dumas "	126,134,113
	Goldsmith "	
	Crane "	
	Eunice "	
	Fullerton "	
Cities Service Gas Co.	W.Edmund "	17,966,098
	Hunton "	
	Trindle "	
	Total	299,185,024

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United States. The evidence establishes that Phillips' nationwide business in natural gas is the result of continued active and aggressive efforts on its part to secure markets in distant parts of country; that in order to have outlets for its gas, Phillips backed and assisted pipe-line companies in securing these markets, acquired stock interest in some of the pipe-line companies, and in other instances, contracted its gas to pipe-line companies for delivery in lieu of itself constructing pipe lines to these distant points.

Yet it is apparent that the majority's decision, for the time being, forecloses for all practical purposes any possible

[10951]

regulation of sales in interstate commerce for resale where the seller is not also engaged in the operation of long-distance lines. The decision must be recognized for what it really is—another decision in the nature of Order 139. For if Phillips' sales here in issue be not subject to regulation, what sales by any other producer or gatherer could possibly be?

The majority admit that their "decision has deprived the ultimate consumers of gas thus sold by Phillips of the benefit of any rate reduction which might have followed a finding that jurisdiction exists,"[*] and express concern that "Some question has been raised on this record" that

[*]In my dissent to the separation of the issues, **supra**, I pointed out that any reduction in unreasonable rates to consumers would be postponed for as much as three years since the Natural Gas Act makes no provision for reparations. This statement is all the more true in view of the majority decision.

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the "public agencies representing consumer interests"[4] may not be entitled to judicial review of their decision.

The majority's solicitude for the welfare of the ultimate consumers and the delivery of their interests to the courts or to Congress for protection stand in strange contrast to the views expressed by the President of the United States when he said in his message vetoing the Kerr bill, *supra*, "To withdraw entirely from this field of regulation, however, impelled only by imaginary fears * * * would not be in the public interest."

[10952]

From my review and study of the law and the whole record in this proceeding, I am convinced that this Commission has jurisdiction over the respondent, Phillips Petroleum Company because it is engaged within the meaning of the Natural Gas Act in (1) the sale of natural gas in interstate commerce for resale for ultimate public consumption, and (2) the transportation of natural gas in interstate commerce.

Therefore, I dissent.

.....

Thomas C. Buchanan, Commissioner

August 22, 1951

Date of Issuance: August 22, 1951

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[4]Representation of consumer interests is likewise the job of the Federal Power Commission.

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Appendix B

(Transcript of Record, pp. 5487 - 5496, May 21, 1951)

UNITED STATES OF AMERICA

BEFORE THE FEDERAL POWER COMMISSION

IN THE MATTER OF PHILLIPS PETROLEUM COMPANY	100-2 FORMAL DOCKET No. G-1148

STIPULATION

To avoid the calling of witnesses familiar with the operations of Panhandle Eastern Pipe Line Company, El Paso Natural Gas Company, Independent Natural Gas Co., Northern Natural Gas Company and Michigan-Wisconsin Pipe Line Company, the following stipulation is entered into by and between counsel for Phillips Petroleum Company and counsel for the staff of the Federal Power Commission.

I.

Phillips Petroleum Company (Phillips) sells and delivers natural gas to El Paso Natural Gas Company (El Paso) in the states of Texas and New Mexico under the terms of the contracts contained in Exhibit 10. El Paso owns and operates a natural gas pipe line system extending

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from points of connection with facilities owned and operated by Phillips as shown on Exhibits 45 D, 45 E-1, 45 F-1, 45 G-1, and 45 H-1, in the states of Texas and New Mexico through the State of Arizona, and by diverging lines to connections (1) at Blythe, California, with a natural gas pipe line owned and operated by Southern California Gas Company and Southern Counties Gas Company of California extending from such point of connection to Los Angeles, California, with a branch line owned by said Southern Counties Gas Company and San Diego Gas & Electric Company extending to San Diego, California, and (2) at Topock, Arizona, with a natural gas pipe line owned and operated by Pacific Gas & Electric Company extending from this point of connection to the vicinity of San Francisco, Berkeley, and Oakland, California.

[10956]

El Paso obtains approximately forty-five per cent (45%) of the total natural gas requirements for its main pipe line system from Phillips and, although El Paso makes delivery of natural gas along the route of its pipe line system in the states of Texas, New Mexico, and Arizona, a substantial portion of the natural gas sold and delivered by Phillips to El Paso to meet its main pipe line requirements is transported by El Paso to the points of connection between its lines and the lines of Southern California Gas Company, Southern Counties Gas Company of California, and Pacific Gas & Electric Company, and sold to such companies for transportation and sale in the State of California, including sales in the cities of San Diego, Los Angeles,

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Glendale, Pasadena, San Francisco, Oakland, and Berkeley, where such gas is consumed for domestic, commercial, and industrial uses.

There is a continuous movement of the volumes of natural gas delivered by Phillips to El Paso through the lines of El Paso and the lines of connecting companies to the areas of consumption in Texas, New Mexico, Arizona, and California.

Prior to and at all times since the contract of October 13, 1945 (Exhibit 10-K), for the sale and delivery of natural gas by Phillips to El Paso was entered into between such companies, Phillips knew that the gas to be delivered by Phillips to El Paso to meet its main pipe line requirements (except line losses and that used by El Paso as fuel in its compressor station) would be tranported by El Paso and connecting companies to areas of ultimate consumption in the states of Texas, New Mexico, Arizona, and California.

Gas sold and delivered by Phillips through its Goldsmith Plant to El Paso for the Sid Richardson Carbon Company and gas sold and delivered by Phillips through its Hobbs, Lee, and Seminole plants to El Paso is not delivered into the main pipe line system of El Paso, but is resold by El Paso for use in the manufacture of carbon black within the state in which the gas is produced. These volumes of gas do not constitute any part of the forty-five per cent (45%) of El Paso's main pipe line gas requirements referred to above.

II.

Phillips sells and delivers natural gas to Michigan-Wisconsin Pipe Line Company (Michigan-Wisconsin) in the State of Texas under the terms of the contracts in Exhibit 11. Michigan-Wisconsin owns and operated a natural gas pipe line system extending from the point of connection with facilities owned and operated by Phillips as shown on Exhibit 45 A, through the states of Oklahoma, Kansas, Missouri, Iowa, Illinois, Indiana, Wisconsin, and Michigan. Phillips is the sole supplier of the gas requirements of Michigan-

[10957]

Wisconsin. All of the gas sold and delivered by Michigan-Wisconsin for ultimate public consumption is sold in the states of Missouri, Iowa, Wisconsin, and Michigan, including the cities of Milwaukee, Wisconsin, and Detroit, Michigan.

There is a continuous movement of the volumes of natural gas delivered by Phillips to Michigan-Wisconsin through the lines of Michigan-Wisconsin and the lines of connecting companies to the areas of ultimate consumption in the states specified above, with the exception of a part of the gas destined for the Detroit, Michigan, area which is placed in underground storage in storage fields located in the State of Michigan prior to consumption.

Prior to and at all times since the contract of December 11, 1945 (Exhibit 11-A), was entered into between

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Phillips and Michigan-Wisconsin for the sale and delivery of natural gas by Phillips to Michigan-Wisconsin, Phillips knew that the gas to be delivered by Phillips to Michigan-Wisconsin (except line losses and that consumed as fuel by Michigan-Wisconsin in its compressor stations) would be transported by Michigan-Wisconsin from the State of Texas, through the states of Oklahoma, Kansas, Missouri, Iowa, Illinois, Indiana, Wisconsin, and Michigan for ultimate public consumption in some or all of such states.

III.

Phillips sells and delivers natural gas to Independent Natural Gas Company (Independent) in the State of Texas under the terms of the contracts contained in Exhibit 8. Independent owns and operates a natural gas pipe line extending from the point of connection with facilities owned and operated by Phillips as shown by Exhibit 45 C, approximately twenty (20) miles to a point of connection with a pipe line of Northern Natural Gas Company (Northern) near Skellytown, Texas. (Until March 10, 1950, Independent was a wholly owned subsidiary of Phillips. There has been no affiliation between such companies since that date.)

All the natural gas sold and delivered by Phillips to Independent (less line losses and that consumed as fuel by Independent in its compressor stations) is transported by Independent through said pipe line of Independent to said point of connection with the pipe line of Northern and there sold by Independent to Northern.

Northern owns and operates a natural gas pipe line system extending from the point of connection with Independent near Skellytown, Texas, through the states of Oklahoma, Kansas, Nebraska, Iowa, and Minnesota. Northern and connecting companies transport the gas sold and delivered by Independent to Northern (except line

[10958]

losses and gas consumed as fuel by Northern in its compressor stations) to areas in the states of Oklahoma, Kansas, Nebraska, Iowa, and Minnesota where the gas is sold for ultimate consumption for domestic, commercial, and industrial uses.

There is a continuous movement of the volumes of natural gas delivered by Phillips to Independent through the pipe lines of Independent, Northern, and connecting pipe line systems to the areas of ultimate consumption in the states specified above.

Prior to and at all times since the contract of August 15, 1942 (Exhibit 8-F), Phillips knew that the natural gas to be delivered by Phillips to Independent for resale and delivery to Northern (except line losses and gas used as fuel by Independent in its compressor stations) would be transported by Northern (except line losses and gas used as fuel by Northern in its compressor stations) from the State of Texas, through the states of Oklahoma, Kansas, Nebraska, Iowa, and Minnesota for ultimate public consumption in such states, including the cities of Des Moines, Iowa, Omaha, Nebraska, and Minneapolis, Minnesota.

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IV.

Phillips sells and delivers natural gas to Panhandle Eastern Pipe Line Company (Panhandle Eastern) in the State of Texas under the terms of contracts contained in Exhibit 9. Panhandle Eastern owns and operates a natural gas pipe line system extending from the points of connection with facilities owned and operated by Phillips as shown on Exhibits 45 A and 45 B, through the states of Oklahoma, Kansas, Missouri, Illinois, Indiana, Ohio, and Michigan. Panhandle Eastern and connecting companies transport the natural gas sold and delivered by Phillips to Panhandle Eastern (except line losses and gas used as fuel by Panhandle Eastern in its compressor stations) to areas in the states of Oklahoma, Kansas, Missouri, Illinois, Indiana, Ohio, and Michigan, and Ontario, Canada, including the cities of Toledo and Cleveland, Ohio, and Detroit, Michigan, where the gas is sold for ultimate consumption for domestic, commercial, and industrial uses.

There is a continuous movement of the volumes of natural gas delivered by Phillips to Panhandle Eastern through the lines of Panhandle Eastern and the lines of connecting companies to the areas of ultimate consumption, with the exception of a part of the gas destined for the Michigan area which is placed in underground storage in storage fields located in the State of Michigan prior to consumption.

Prior to and at all times since the contract of April 5, 1943 (Exhibit 9-A), was entered into for the sale and delivery of natural gas by Phillips to Panhandle Eastern, Phillips knew that

the gas to be delivered by it to Panhandle Eastern would be transported by Panhandle Eastern and connecting companies to areas of ultimate consumption in the states of Kansas, Missouri, Illinois, Indiana, Ohio, and Michigan.

It is understood and agreed that this stipulation shall not supplant, alter or modify testimony or documentary evidence of record in this proceeding. Likewise it is understood and agreed that this stipulation shall not be construed as indicating agreement or understanding concerning the movement of natural gas through the pipe lines and processing plants of Phillips Petroleum Company, that question being subject to determination from a consideration of relevant evidence of record.

Dated this 21 day of May, 1951.

LAMBERT MCALLISTER
Counsel for the Staff of
the Federal Power Commission

WARREN M. SPARKS
Counsel for
Phillips Petroleum Company

ROY G. TULANE
Counsel for State of Wisconsin
and the Public Service Commission
of Wisconsin

Approved May 21, 1951

EDWARD B. MARSH
Presiding Examiner

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Appendix C

COMPARISON OF SECTION 1(b) in H. R. 11662 and H. R. 6586

H. R. 11662 Died with Session June 20, 1936 (Lea Bill 74th Cong., 2d sess., introduced March 6, 1936)	H. R. 6586 Enacted June 21, 1938 (Lea Bill 75th Cong., 1st sess. introduced April 22, 1937)
Section 1(b) The provisions of this Act shall apply to the transportation of natural gas in high-pressure mains in interstate commerce and to natural-gas companies engaged in such transportation, but shall not apply to the distribution of natural gas moving locally in low-pressure mains or to the facilities used for such distribution or to the production of natural gas; *Provided*, That nothing in this Act shall be construed to authorize the Commission to fix rates or charges for the sale of natural gas distributed locally in low-pressure mains or for the sale of natural gas for industrial use only.	Section 1(b) The provisions of this Act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

[11073]

UNITED STATES OF AMERICA
FEDERAL POWER COMMISSION

Before Commissioners:

Mon C. Wallgren, Chairman; Thomas C. Buchanan, Claude L. Draper, Nelson Lee Smith and Harrington Wimberly.

September 27, 1951

In the Matter of
Phillips Petroleum Company

ORDER DENYING APPLICATIONS FOR REHEARING

On the dates hereinafter specified, the following complainants and interveners in this proceeding filed applications for rehearing of the Commission's opinion and order issued on August 22, 1951:

Date	Applicant
September 10, 1951	City of Kansas City, Missouri
September 12, 1951	City of Milwaukee, Wisconsin
September 17, 1951	State of Wisconsin and Public Service Commission of Wisconsin
September 19, 1951	City of Detroit, Michigan
September 19, 1951	County of Wayne, Michigan

The Commission, having considered said applications, *finds*:

(1) No facts and no principles of law have been presented in said applications or any of them which either were not fully considered by the Commission before it entered such opinion and order, or,

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having now been considered, justify a reversal or modification of the Commission's opinion and order.

(2) Good cause exists for denying said applications.

The Commission *orders*:

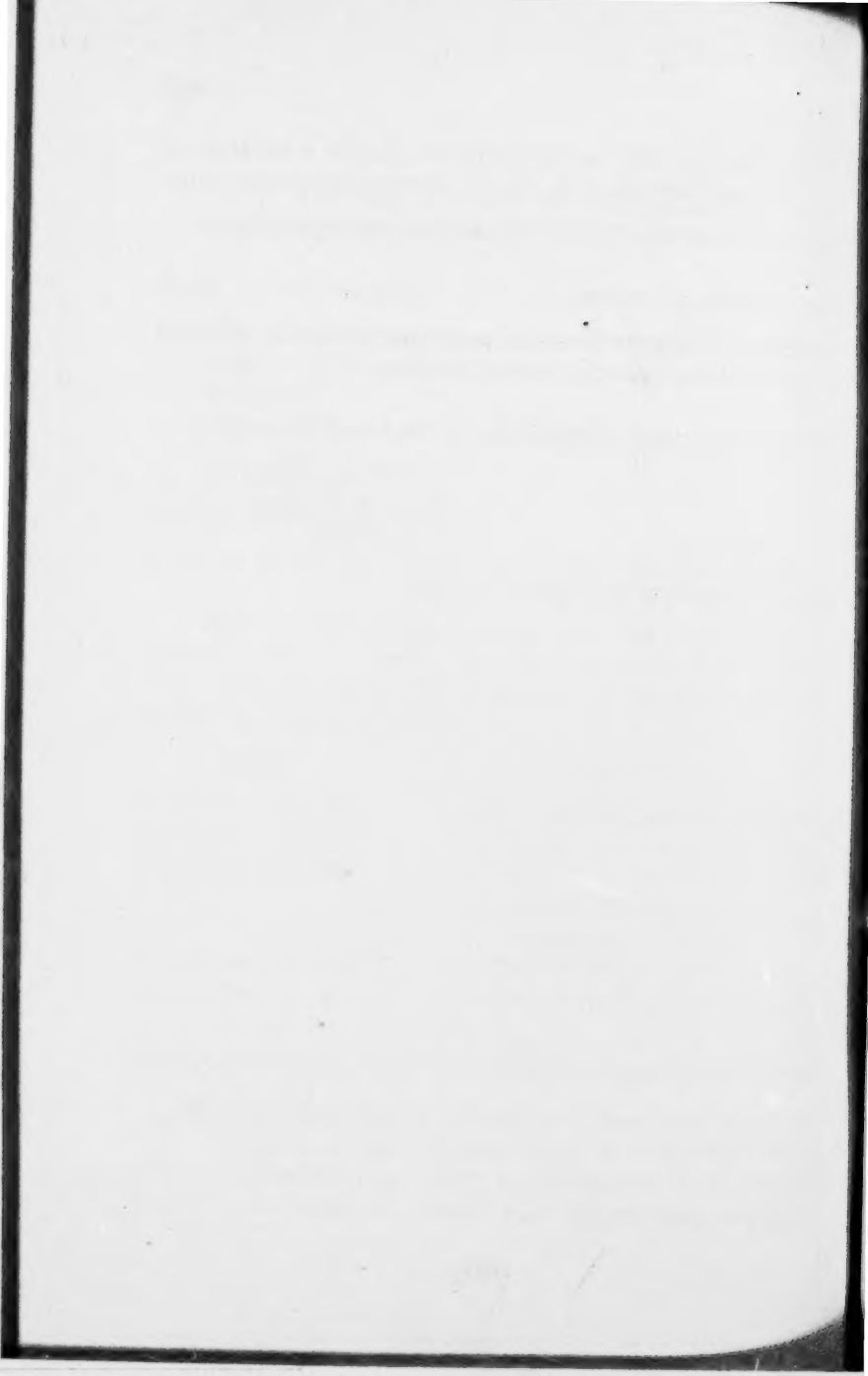
The said applications for rehearing and each of them be and the same are hereby denied.

By the Commission. Commissioner Buchanan dissenting.

LEON M. FUQUAY
Leon M. Fuquay,
Secretary.

/SEAL/

Date of Issuance: September 28, 1951



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[fol. 1838] [File endorsement omitted]

IN THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11,241

CITY OF DETROIT, MICHIGAN, Petitioner,

v.

FEDERAL POWER COMMISSION, Respondent

No. 11,242

CITY OF KANSAS CITY, MISSOURI, Petitioner,

v.

FEDERAL POWER COMMISSION, Respondent

No. 11,245

CITY OF MILWAUKEE, a Municipal Corporation, Petitioner,

v.

FEDERAL POWER COMMISSION, Respondent

No. 11,247

STATE OF WISCONSIN and PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners,

v.

FEDERAL POWER COMMISSION, Respondent

No. 11,252

COUNTY OF WAYNE, MICHIGAN, Petitioner

v.

FEDERAL POWER COMMISSION, Respondent

Before Stephens, Chief Judge, in Chambers

ORDER CONSOLIDATING CASES FOR HEARING—Filed February 5th, 1952

Upon consideration of petitioners' motion to consolidate the above-entitled cases for hearing and for rearrangement of titles in the proceeding as consolidated so that case No.

11,247, State of Wisconsin and Public Service Commission of Wisconsin, petitioners, v. Federal Power Commission, respondent, will appear first and the other cases consolidated therewith will follow in numerical order, and respondent having consented thereto, it is

Ordered that the above-entitled cases be, and they are hereby, consolidated for hearing; and, it is

Further ordered that the sequence of the titles in the above-entitled cases be changed as indicated above and that the Clerk of this Court be, and he is hereby, directed to entitle all papers herein so that case No. 11,247, State of Wisconsin and Public Service Commission of Wisconsin, petitioners, v. Federal Power Commission, respondent, will appear first and the other cases herein follow in numerical order.

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[fol. 1839] [File endorsement omitted]

UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11,247

STATE OF WISCONSIN and PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners,

v.

FEDERAL POWER COMMISSION, Respondent

PHILLIPS PETROLEUM COMPANY, Intervenor *

STATE OF NEW MEXICO and the OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO, Intervenors *

CORPORATION COMMISSION OF THE STATE OF OKLAHOMA, Intervenor *

STATE OF TEXAS through the Railroad Commission of Texas, Intervenor *

No. 11,241

CITY OF DETROIT, MICHIGAN, Petitioner,

v.

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY, et al., Intervenors

No. 11,242

CITY OF KANSAS CITY, MISSOURI, Petitioner,

v.

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY, et al., Intervenors

No. 11,245

CITY OF MILWAUKEE, a Municipal Corporation, Petitioner,

v.

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY, et al., Intervenors

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* These intervenors were also intervenors in Nos. 11,241, 11,242, 11,245 and 11,252.

No. 11,252

COUNTY OF WAYNE, MICHIGAN, Petitioner

v.

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY, et al., Intervenors

On Petitions for Review of Order of the Federal Power Commission

Decided May 22, 1953

[fol. 1840] Messrs. Stewart G. Honeck and William E. Torkelson for petitioners in No. 11,247. Mr. Charles S. Rhyne also entered an appearance for petitioners in No. 11,247.

Mr. Harry G. Slater submitted on the brief for petitioner in No. 11,245. Mr. Charles S. Rhyne also entered an appearance for petitioner in No. 11,245.

Mr. Jerome M. Joffee for petitioner in No. 11,242.

Messrs. James H. Lee and Charles S. Rhyne also entered appearances for petitioner in No. 11,242.

Mr. James H. Lee for petitioner in No. 11,241. Mr. Charles S. Rhyne also entered an appearance for petitioner in No. 11,241.

Mr. Charles S. Rhyne entered an appearance for petitioner in No. 11,252.

Mr. Bradford Ross, General Counsel, Federal Power Commission, with whom Messrs. Bernard A. Foster, Jr., Assistant General Counsel, Federal Power Commission, and Pascal B. Frazier, Attorney, Federal Power Commission, were on the brief, for respondent.

Mr. Hugh B. Cox, with whom Messrs. Ernest W. Jennes, Burke Marshall, Rayburn L. Foster, Harry D. Turner and Warren M. Sparks were on the brief, for intervenor Phillips Petroleum Company.

Mr. J. Paull Marshall submitted on the brief for intervenor State of Texas and the Railroad Commission of Texas.

Mr. Peter N. Chumbris submitted on the brief for intervenor State of New Mexico and the Oil Conservation Commission of the State of New Mexico.

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Mr. J. Paull Marshall submitted on the brief for intervenor Corporation Commission of Oklahoma.

[fol. 1841] OPINION—Filed May 22, 1953

Before Edgerton, Clark, and Prettyman, Circuit Judges

EDGERTON, Circuit Judge:

We have for review under § 19(b) of the Natural Gas Act, 52 Stat. 821, 15 U. S. C. §§ 717 *et seq.*, the question whether Phillips Petroleum Company (Phillips) is a "natural-gas company" within the meaning of the Act, so that the Federal Power Commission has authority under the Act to fix the rates at which Phillips sells gas for interstate transportation and resale. The Commission's staff assured the Commission it had authority, but the Commission reached the opposite conclusion. Commissioner Buchanan dissented.

Phillips is a very large operator in the petroleum industry and a very large producer, gatherer, and processor of natural gas from wells in Texas, Oklahoma, and New Mexico. Phillips owns and operates nine gathering systems and ten processing plants. Through progressively larger pipelines it gathers gas that it produces from its own wells, and other gas that it buys, at common points in or near its plants. At these plants it processes the gas to make it salable or to recover extractable products or both. Phillips then moves the gas here involved through short lines to points where Phillips sells it to Michigan-Wisconsin Pipe Line Company, Panhandle Eastern Pipe Line Company, Independent Natural Gas Company, El Paso Natural Gas Company, or Cities Service Gas Company,[1] for interstate transportation and resale. Thus Phillips sells the gas after the time and beyond the place at which production and gathering are complete and after processing has intervened. For example, gas processed in one Phillips plant then flows about 240 feet through a Phillips pipeline to sales meters owned and operated by Phillips, where it is sold and delivered to Panhandle Eastern Pipe Line Company. Gas

[1] Slight variations with respect to sales to Cities Service Gas Company are not material.

[fol. 1842] that Phillips produces, gathers, processes, and sells and delivers to the interstate pipeline companies in Texas or New Mexico is resold, after continuous movement, for ultimate public consumption in many other states including Arizona, California, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin. and also in the province of Ontario.

The Supreme Court decided in 1924 that the Constitution forbids states to regulate rates at which natural gas is sold, at points remote from the wells, "in wholesale quantities, not to consumers, but to distributing companies for resale to consumers in numerous cities and communities in different States." The sales in that case, like those in this case, were by a producer and gatherer. The Court said: "the sale and delivery here is an inseparable part of a transaction in interstate commerce—not local but essentially national in character . . . The contention that, in the public interest, the business is one requiring regulation, need not be challenged. But Congress thus far has not seen fit to regulate it, and its silence, where it has the sole power to speak, is equivalent to a declaration that that particular commerce shall be free from regulation." *Missouri* v. *Kansas Natural Gas Co.*, 265 U. S. 298, 309, 308 (1924).[2]

Some years later Congress decided that that particular commerce should no longer be free from regulation and therefore passed the Natural Gas Act of 1938. The Act begins with a declaration in § 1(a) "that the business of transporting and selling natural gas for ultimate distribu-
[fol. 1843] tion to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public

[2] In that case most of the gas was sold after it crossed state lines, whereas in this case it is sold before it crosses a state line, but as appears later this difference is immaterial. The electricity involved in *Public Utilities Commission* v. *Attleboro Steam & Electric Co.*, 273 U. S. 83 (1927), was sold at a state line. Both those cases, which denied state power to regulate, were decided before the Natural Gas Act was passed.

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interest."[3] The House Committee on Interstate and Foreign Commerce said in its report on the bill: "sales for resale, or so-called wholesale sales, in interstate commerce (for example, *sales by producing companies to distributing companies*) . . . have been considered to be not local in character and, even in the absence of Congressional action, not subject to State regulation. (See *Missouri* v. *Kansas Gas Co.* (1924), 265 U. S. 298, and *Public Utilities Commission* v. *Attleboro Steam & Electric Co.* (1927), 273 U. S. 83). *The basic purpose of the present legislation is to occupy this field* in which the Supreme Court has held that the States may not act."[4]

In accordance with this basic purpose the Natural Gas Act provides in § 1(b) that it "shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas."[5] Section 2(6) provides that " 'Natural-gas company' means a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate [fol. 1844] commerce of such gas for resale."[6] Section 5(a) authorizes the Commission to regulate interstate sales rates of natural-gas companies.[7]

Accordingly the Supreme Court has repeatedly upheld the Commission's authority under the Natural Gas Act to regulate the rates at which a producer and gatherer of natural gas sells it, after producing and gathering it, to

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[3] 52 Stat. 821, 15 U. S. C. § 717(a).

[4] Emphasis supplied. H. Rep. No. 709, 75th Cong., 1st Sess., April 28, 1937; quoted in *Illinois Natural Gas Co.* v. *Central Illinois Public Service Commission*, 314 U. S. 498, 506-7, n. 1.

[5] 52 Stat. 821, 15 U. S. C. § 717(b).

[6] 52 Stat. 821, 15 U. S. C. § 717a(6).

[7] 52 Stat. 822, 15 U. S. C. § 717d.

pipeline companies for resale in other states. One such case is *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U. S. 581 (1945). In that case the company called "Canadian" was a producer and gatherer. It produced from its own properties all the gas it sold. The Commission adopted a rate base etc. that included Canadian's production and gathering properties as well as its interstate transmission system. Canadian contended "that contrary to the mandate of § 1(b) the Commission has undertaken to regulate the production and gathering of natural gas." 324 U. S. at 597. It pointed out that Senator Wheeler, who sponsored the legislation in the Senate, said during the debate: "It does not attempt to regulate the producers of natural gas or the distributors of natural gas; only those who sell it wholesale in interstate commerce." 324 U. S. at 600. But the Supreme Court said: "A natural-gas company as defined in § 2(6) of the Act is 'a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale.' Canadian is such a company. It is plain therefore that the Commission has authority to fix its interstate wholesale rates. . . . That does not mean that the part of § 1(b) which provides that the Act shall not apply 'to the production or gathering of natural gas' is given no meaning. Certainly that provision precludes the Commission from any control over the activity of producing or gathering natural gas. For example, it makes plain that the Commission has no control over the drilling and spacing of wells and the like." 324 U. S. at 600-601, 602-603.

[fol. 1845] In *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682 (1947), the Court again upheld the Commission's regulation of the rates at which a producer and gatherer of natural gas sold it to pipeline companies for resale in other states. The Court said: "In a series of decisions announced prior to the passage of the Act, this Court had held that, although Congress had not acted, the regulation of wholesale rates of gas and electrical energy moving in interstate commerce is beyond the constitutional powers of the States. . . . As was stated in the House Committee report, the 'basic purpose' of Congress in passing the Natural Gas Act was 'to occupy this

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field in which the Supreme Court has held that the States may not act.' In denying the Federal Power Commission jurisdiction to regulate the production or gathering of natural gas, it was not the purpose of Congress to free companies such as petitioner from effective public control. The purpose of that restriction was, rather, to preserve in the States powers of regulation in areas in which the States are constitutionally competent to act. Thus the House Committee Report states: 'The bill takes no authority from State commissions, and is so drawn as to complement and in no manner usurp State regulatory authority. . . .' Clearly, among the powers thus reserved to the States is the power to regulate the physical production and gathering of natural gas in the interests of conservation or of any other consideration of legitimate local concern. It was the intention of Congress to give the States full freedom in these matters." 331 U. S. at 689-690.

In the *Interstate Natural Gas* case the Supreme Court found the Commission's rate regulation not within the intent of the "production or gathering" exemption because not inconsistent with exercise by the state of its regulatory functions. This made it unnecessary for the Court to decide "whether the gathering process continued to the points of sale" although it observed that "By the time the [fol. 1846] sales are consummated, nothing further in the gathering process remains to be done." 331 U. S. at 692. But in the decision that the Supreme Court affirmed, the Court of Appeals for the Fifth Circuit, following the *Colorado Interstate* case *supra* (referred to as the Canadian River Gas case), expressly rejected Interstate's attempt "to read the exception with respect to production or gathering as an exception with respect to sales." *Interstate Natural Gas Co.* v. *Federal Power Commission*, 156 F. 2d 949, 951. And as the Fifth Circuit said, "In Peoples Natural Gas Co. v. Federal Power Comm., 75 U. S. App. D. C. 235, 127 F. 2d 153, the court found that a sale in Pennsylvania to an interstate pipeline company which immediately transported it to New York was a sale of natural gas in interstate commerce for resale, and, so finding, held that the provision that the act did not apply to production

or gathering did not limit the commission's jurisdiction over such sales." 156 F. 2d at 951-2.[8]

The Commission finds that the sales involved here are sales in interstate commerce of natural gas for resale. That finding is not disputed. It follows that no state can regulate these sales. It was plain long before the Natural Gas Act was passed that "state regulatory power could not reach high-pressure trunk lines and sales for resale. This was the 'gap' which Congress intended to close."[9] *Federal Power Commission* v. *East Ohio Gas Co.*, 338 U. S. 464, 472-[fol. 1847] 473 (1950). As we have shown, the Supreme Court has determined that Congress closed it.[10] The Commission now holds in effect that Congress failed to close it.

The Commission finds that Phillips' transportation in

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[8] The brief filed here for the Peoples Natural Gas Company raised the "production and gathering" contention. We rejected it without mentioning it.

[9] Since Phillips' sales are made after the gas has been gathered into trunk lines *Cities Service Co.* v. *Peerless Oil & Gas Co.*, 340 U. S. 179 (1950), is irrelevant. That case upholds a state's power, in aid of conservation, to fix minimum prices for natural gas sold at the wellhead for interstate movement. Such sales are obviously made during the "production and gathering" which Congress reserved to state control, and it "is now well settled that a state may regulate matters of local concern over which federal authority has not been exercised, even though the regulation has some impact on interstate commerce." 340 U. S. at 186. Moreover the Supreme Court has said: "*prior* constitutional decisions, not what we have since decided or would decide today, form the measure of the gap which Congress intended to close by this Act." *Federal Power Commission* v. *East Ohio Gas Co.*, 338 U. S. 464, 472 (1950).

[10] Again on April 7, 1953, the Court said: "Especially in the litigation arising under the Gas Act has this Court expressed the view that the limitations established on Commission jurisdiction therein were designed to coordinate precisely with those constitutionally imposed on the states." *United States* v. *Public Utilities Commission of California*, 345 U. S. 295, 311.

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interstate commerce and its sales in interstate commerce, together with its processing operations, "all constitute a part of its gathering business, *or* they are incidents of *or* activities related to such business, *so that* such movement, processing, and sales come within the exemption of production and gathering in Section 1(b) of the Act."[11] The [fol. 1848] premise does not support the conclusion. The Supreme Court said in the *Interstate Natural Gas* case: "*where sales,* though technically consummated in interstate commerce, *are made during the course* of production and gathering *and* are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach."[12] By replacing the Supreme Court's "and" with "or" the Commission reverses the sense.

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[11] Emphasis supplied. The quotation is from the Commission's finding (2), one of the three numbered findings at the end of its opinion.

In the course of its opinion the Commission says: "Though technically consummated in interstate commerce, these sales are made 'during the course of production and gathering.' And we expressly find that they are so closely connected with the local incidents of that process as to render rate regulation by this Commission inconsistent or a substantial interference with the exercise by the affected States of their regulatory functions." As appears later, we think the description of these sales in the first of these sentences unsupportable and that this makes the finding in the second sentence immaterial. We do not imply that we think the finding supportable. On the contrary, as the Supreme Court has held, federal protection of consumers against exorbitant rates is not inconsistent with the exercise by the producing state of its regulatory functions. *Interstate Natural Gas* case, *supra.*

[12] Emphasis supplied. The Court added: "But such conflict must be clearly shown. Exceptions to the primary grant of jurisdiction in the section are to be strictly construed." 331 U. S. at 690-691.

The Commission's finding expresses a belief that even if Phillips' interstate sales of gathered and processed gas are not "part of its gathering business" or even "incidents of . . . such business", they are nevertheless "within the exemption of production and gathering in Section 1(b) of the Act" if they are closely "related to such business". If this were law neither the *Interstate Natural Gas* case nor the *Colorado Interstate Gas* case could have been decided as it was. For the sales of a producer and gatherer are necessarily and closely related to production and gathering. It does not follow that his bulk interstate sales are exempt from regulation under the Natural Gas Act. The cases we have cited, and § 1(b) of the Act itself, show that such sales are not exempt. Section 1(b) says the act shall apply "to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale . . . and to natural-gas com- [fol. 1849] panies engaged in such transportation or sale . . ." It proceeds to exempt both "local distribution" and "production or gathering", but it exempts nothing between "production or gathering" and "local distribution." The exemption of production or gathering does not exempt sales made after production and gathering have been completed.[13]

Phillips urges that the Commission's findings are supported by substantial evidence and should therefore be sustained. But the validity or invalidity of the Commission's conclusion that Phillips is not a "natural-gas company" does not turn upon the evaluation of testimony or upon any facts peculiar to this case. It turns upon the generic question whether the exemption of "production or gathering" in § 1(b) of the Natural Gas Act covers interstate sales of gas by the corporation that produced and gathered it. We think the Act and the decisions of the Supreme Court permit only one answer. We think the Commission has applied an erroneous rule of law. Phillips'

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[13] *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, on which the Commission relies, does not touch the point. It holds that transfers of leases intended for use in production are within the exemption.

sales to the pipeline companies are not within either the statutory phrase "the production or gathering of natural gas" or the Supreme Court's paraphrase "made during the course of production and gathering". Therefore Phillips is a "natural-gas company" within the meaning of the Natural Gas Act and the Commission should fix the rates at which these sales are made.[14]

Reversed.

[fol. 1850] CLARK, Circuit Judge, dissenting:

I am able to agree neither with the reasoning of the majority nor with its conclusions. In my opinion, the Federal Power Commission had no jurisdiction over Phillips and no power to fix the rates at which Phillips sells gas to pipe line or transportation companies, and the order of the Commission therefore should be sustained. The Commission has claimed authority in so many cases in which it did not have a shadow of a claim, that it ought to be encouraged in its latest effort to stick strictly within its jurisdiction.

The answer to the question whether Phillips is a "natural gas company" within the meaning of the Natural Gas Act and as such subject to regulation thereunder depends, in so far as this controversy is concerned, solely and exclusively upon the answer to the preliminary question whether Phillips' activities are encompassed within the concepts of "production" or "gathering." If they are, then Phillips cannot be regulated by the Commission, for Section 1 (b) plainly and unequivocally states that ". . . this act . . . shall not apply . . . to the production or gathering of natural gas." Manifestly, then, the problem as to whether Phillips' sales are a part of the production or gathering process goes to the very crux of the issue before us and determines the outcome of this litigation. Consequently I find it impossible to go along with my brethren of the majority, who, at the very outset of their opinion, simply assume that "Phillips sells this gas after the time and beyond the place

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[14] The Commission expressly recognizes that its decision to the contrary is subject to review.

at which production and gathering are complete . . ." and then go on to build on that assumption of the answer elaborate and imposing arguments leading quite naturally to the final conclusion that Phillips' sales are indeed without the gathering exemption of § (b). It is perhaps noteworthy that the Court's assumption flies directly in the face of a diametrically contrary administrative determina-
[fol. 1851] tion, arrived at by the Commission after it had heard testimony and read exhibits filling close to 10,000 pages of the record.

I do not disagree with the view that the extent and scope of the production or gathering exemption must be determined by reference to the statute and to familiar principles of statutory construction. In other words, the meaning of the word "gathering" is a question of law, not of fact, and therefore not dependent upon or controlled by the factual findings of the Commission, irrespective of the quantity and quality of evidence cited in support thereof. But once the scope of the exemption is established as a matter of law—and I believe the only reasonable construction of the statute and of the decisions is that sales may be included in the gathering exemption—then the Commission has the power to find and determine whether the particular operations of a particular company fit within or without the niche carved out for the exemption. Such findings should not be overturned if supported by substantial evidence;[1] they certainly may not simply be disregarded.

The natural gas business in this country consists of three main operations, separate and distinct in character and economic purpose, and usually performed by separate and distinct business units: (1) production and gathering of natural gas, carried on by independent producers and gatherers, such as Phillips; (2) transportation of gas, performed by pipe line companies; and (3) distribution of gas to the ultimate consumers, carried on by local distributing companies.[2] But this separation of functions is not and

[1] *Cf. Cardillo* v. *Liberty Mutual*, 330 U. S. 469, 67 S. Ct. 801 (1947).

[2] Traditionally, the first and third stages are local or statewide in character, and only the second stage is an interstate business.

[fol. 1852] cannot be absolute. For example, some transportation is involved in both the production and the distribution phases. Similarly, all three phases culminate in sales, for the sale is the expected and necessary economic reward for the service performed. It is a trite but true observation that, as Judge Waller said in his dissent in the *Interstate* case: ". . . there can be no sustained production unless the gas can be collected and carried to market." *Interstate Natural Gas Co.* v. *F. P. C.*, 156 F. 2d 949, 953 (5th Cir. 1949). Nothing could be more absurd than to say that production and gathering are exempt but that the final sale by the producer and gatherer is subject to the Act.[3] That line of reasoning reduces the exemption to a hollow shell without content or meaning. In my view, the sale is as much part and parcel of the service performed as the labor or the tools which create that service, or the leases by which gas reserves may be transferred from one company to another.[4] Only the transportation phase of the natural gas business is covered by Section 1(b) and I read that to mean that the jurisdiction of the Commission extends only (1) to sales made during the transportation phase proper and (2) to sales by companies engaged in the business of transporting natural gas. On the other hand, sales made during or at the culmination of gathering and those which are a part of distribution are exempt from regulations by the negative language of § 1 (b). That interpretation of the meaning of the statute is strengthened [fol. 1853] by the additional safeguard that the Act should not apply "to any other transportation or sale of natural gas" except to what in effect is the transportation phase of the natural gas business.

The majority attempts to justify its conclusions with the

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[3] The Supreme Court in *Interstate*, note 8, *infra*, very pointedly refused to sustain a Fifth Circuit ruling which held just that; and it said in *F. P. C.* v. *Panhandle Eastern*, 337 U. S. 498, 506, 69 S. Ct. 1251 (1949), that *Colorado* v. *F. P. C.*, 324 U. S. 581, 65 S. Ct. 829 (1945), was "not a precedent for regulation of any part of production or marketing." Marketing of course includes selling.

[4] *F. P. C.* v. *Panhandle Eastern, supra*, note 3.

argument that the legislative history shows that this statute was enacted in order to close the "gap" between Federal and State regulation and that the Commission order frustrates that purpose. But it is by no means clear that there was a gap where the majority thinks it was. The cases cited by the House Committee in H. Rep. 709, 75th Cong., 1st Sess. in support of the statement that the statute was designed to occupy a field in which the Supreme Court had held that the states cannot act (the famous gap), these cases dealt with sales *after* transportation in interstate commerce and were related to transportation and distribution, not to transportation and gathering.[5] Even more, the existence of a gap presupposes that the states have no power to regulate activities of the type in which Phillips was engaged. But not only is that field not pre-empted by the commerce clause,[6] for, as the Supreme Court said at p. 186 in the *Cities Service* case:[7] "It is now well settled that a state may regulate matters of local concern over which federal authority has not been exercised, even though the regulation has some impact—interstate commerce," and at p. 187, "Nor should we lightly translate the quiescence of federal power into an affirmation that the national interest lies in complete freedom from regulation," but by § 1(b) the Congress specifically reaffirmed the power of the [fol. 1854] states to deal with this problem if the existence of such power had previously been in doubt. *Panhandle* v. *Public Service Comm. of Indiana*, 332 U. S. 507, 517, 519, 68 S. Ct. 190 (1947).

Since the majority opinion leans so heavily upon the *Interstate* decision,[8] it may perhaps be well to compare that case with the instant one in order to determine whether *Interstate* really is controlling here. There, the Commission

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[5] See *Missouri* v. *Kansas Gas Co.*, 265 U. S. 298, 44 S. Ct. 544 (1924); *P. U. C. of Rhode Island* v. *Attleboro Steam*, 273 U. S. 83, 47 S. Ct. 294 (1927).

[6] *Cooley* v. *Board of Wardens*, 12 How. 299 (1851).

[7] *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U. S. 179, 186, 71 S. Ct. 215 (1950).

[8] *Interstate Natural Gas Co.* v. *F. P. C.*, 331 U. S. 682, 67 S. Ct. 1482 (1947).

found and determined, and pointed out to the courts, that the sales were made after the gathering process had been completed and after there had been some transportation in a pipe line transmission system.[9] Here, the Commission made a contrary finding. There, the State of Louisiana never opposed Federal jurisdiction;[10] here, the states involved very vigorously objected to Commission jurisdiction because, they asserted, such regulation would interfere with state regulation or state conservation policies.[11] That conflict clearly brings into play the exception contemplated in the *Interstate* opinion.[12] And finally, there, the Supreme

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[9] Brief filed by the Commission in the Supreme Court, at pp. 29-33.

[10] As a matter of fact, the Interstate Gas Co. had successfully prevented state regulation with the assertion that its sales were interstate in character. *Interstate Natural Gas Co.* v. *Louisiana P. U. C.*, 33 F. Supp. 50 (E. D. La. 1940); *Interstate Natural Gas Co.* v. *Louisiana P. U. C.*, 34 F. Supp. 980 (E. D. La. 1940).

[11] The Supreme Court has made it clear that the Natural Gas Act was not to encroach upon the jurisdiction of the states and their legitimate conservation policies. *F. P. C.* v. *Panhandle Eastern*, 337 U. S. 498, 509-513, 69 S. Ct. 1251 (1949).

[12] The Supreme Court said, at p. 691: "There is nothing in the record to indicate that the regulation in question is in any way inconsistent with the exercise by Louisiana of the powers over production and gathering of natural gas reserved to it by Congress in § 1(b) of the Act. . . . The record is devoid of any suggestion that Louisiana has ever opposed the jurisdiction of the Federal Power Commission in this case or has ever urged that federal regulation of the sales in question would interfere with the exercise by the State of its regulatory functions. We do not suggest that the jurisdiction of the Commission in any case is to be determined by the resistance or lack of resistance on the part of the State to federal regulation. But . . . *we regard it a matter of some significance that . . . there is no evidence of any conflict* . . . in the performing of those functions by

[fol. 1855] Court based its decision not upon the reasoning supporting the opinion of the Court of Appeals for the Fifth Circuit—which is the reasoning again relied on here—that the sales were outside of the gathering process, but it expressly declined to support its ruling on that ground when it said that it found it unnecessary to resolve the issues of whether the sales were made from the transmission or the gathering lines. Quite the contrary. The Court flatly stated: "By the time the sales are consummated, nothing further in the gathering process remains to be done." 331 U. S. at p. 692. That statement can mean only that the Court recognized that Interstate's sales were a part of the gathering process, which is precisely what the majority of this Court flatly rejects in the instant case, even though the facts here even more strongly than there suggest sales from gathering lines.

As I see it, Phillips' sales were a part of gathering and exempt from regulation as such. I need not, therefore, discuss at length the problem whether they might be outside the regulatory coverage of the statute if they were not a part of the gathering process but merely related or inci-[fol. 1856] dent to the production or gathering business. Suffice it to say that I cannot agree with the fine-spun reasoning of the majority which purports to find an "and" where the Commission found an "or". While the *Interstate* case, as the majority correctly points out, refers to sales made during the course of gathering *and* closely connected with the local incidents of that process, the *Panhandle* decision, a later case, at least intimated that the "or" interpretation is not so far-fetched.[13] Also, any interpre-

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the State with the exercise of the jurisdiction of the Federal Commission. . . ." (emphasis supplied). A glance at the briefs submitted by the intervenor States will reveal the obvious fact that, at least as to that point, the cases bear no resemblance.

[13] The Court said at p. 506 of 337 U. S. Reports that various sections referred to by the Commission " . . . do not even by implication suggest to us an extension of the regulatory provisions of the Act to cover *incidents connected with* the production or gathering of gas," and it reiterated on

tation other than that suggested by the *Panhandle* case is unreasonable and illogical for the Act can hardly be read to require that sales, to be exempt, be not only made during gathering but be also related thereto. Only the first half of the clause is listed in § 1(b). If that clause is to be extended by interpretation, it might more logically be extended by reading "or related to gathering" into it than by adding a brand-new requirement by an "and" clause which cannot be found anywhere in the Act.

But that issue need not be decided. To me, it seems inescapable under the statute, under the decisions, and in the name of plain economic common sense, that sales by a gatherer are a part of gathering so long as they are made before the gas enters the transmission lines proper. It is the function of the Commission to determine whether, in [fol. 1857] fact, the gas is sold before or after that point. A finding was made by the Commission in this case that the gas was sold while it was still in the gathering lines and that finding seems unassailable either in fact or under the law as I interpret it.

The petition for review should be denied.

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p. 515, "As we have held above that the transfer of undeveloped gas leases is an *activity related to* the production and gathering of natural gas and beyond the coverage of the Act, the authority of the Commission cannot reach the sales." (Emphasis supplied).

[fol. 1858] [File endorsement omitted]

IN THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11,247

STATE OF WISCONSIN and PUBLIC SERVICE COMMISSION OF WISCONSIN, Petitioners

v.

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY, Intervenor *
STATE OF NEW MEXICO and the OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO, Intervenors *
CORPORATION COMMISSION OF THE STATE OF OKLAHOMA, Intervenor *
STATE OF TEXAS through the Railroad Commission of Texas, Intervenor *

No. 11,241

CITY OF DETROIT, MICHIGAN, Petitioner

v.

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY, et al., Intervenors

No. 11,242

CITY OF KANSAS CITY, MISSOURI, Petitioner

v.

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY, et al., Intervenors

No. 11,245

CITY OF MILWAUKEE, a Municipal Corporation, Petitioner

v.

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY, et al., Intervenors

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* These intervenors were also intervenors in Nos. 11,241, 11,242, 11,245 and 11,252.

No. 11,252

COUNTY OF WAYNE, MICHIGAN, Petitioner

v.

FEDERAL POWER COMMISSION, Respondent
PHILLIPS PETROLEUM COMPANY, et al., Intervenors

On Petitions for Review of Order of the Federal Power Commission

Before Edgerton, Clark and Prettyman, Circuit Judges

JUDGMENT AND DECREE—Filed May 22nd, 1953

These cases came on to be heard on the transcript of the record from the Federal Power Commission, and were argued by counsel.

On consideration whereof, it is ordered, adjudged and decreed by this Court that the order of the said Federal Power Commission on review herein be, and the same is hereby, reversed, and that these cases be, and they are hereby, remanded to the Federal Power Commission for further proceedings in conformity with the opinion of this Court.

Per Circuit Judge Edgerton.

Separate dissenting opinion by Circuit Judge Clark.

[fol. 1859] IN THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 11,247, etc.

[Title omitted]

DESIGNATION OF RECORD—Filed August 5th, 1953

The Clerk will please prepare a certified transcript of record for use on petition to the Supreme Court of the United States for writ of certiorari in the above-entitled cause, and include therein the following:

[fols. 1860-1861] 1. Joint appendix to briefs.

2. Opinion.

3. Judgment.
4. Order of the Court consolidating the above-entitled case for hearing dated February 5, 1952.
5. This designation.
6. Clerk's certificate.

Hugh B. Cox, Counsel for Intervenor, Phillips Petroleum Company.

CERTIFICATE OF SERVICE OF THE DESIGNATION OF THE RECORD, DATED AUGUST 5TH, 1953, OMITTED IN PRINTING

[File endorsement omitted.]

[fols. 1862-1863] Clerk's Certificate to foregoing transcript omitted in printing.

[fols. 1864-1865] SUPREME COURT OF THE UNITED STATES, OCTOBER TERM, 1953

No. 418

FEDERAL POWER COMMISSION, Petitioner,

vs.

STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, et al.

ORDER EXTENDING TIME TO FILE PETITION FOR WRIT OF CERTIORARI

Upon consideration of the application of counsel for petitioner,

It is ordered that the time for filing petition for writ of certiorari in the above-entitled cause be, and the same is hereby, extended to and including Oct. 19th, 1953.

Fred M. Vinson, Chief Justice of the United States.

Dated this 20 day of August, 1953.

[fol. 1866] SUPREME COURT OF THE UNITED STATES, OCTOBER TERM, 1953

No. 280

PHILLIPS PETROLEUM COMPANY, Pettioner,

vs.

STATE OF WISCONSIN, et al.

ORDER ALLOWING CERTIORARI—January 18, 1954

On petition for writ of certiorari to the United States Court of Appeals for the District of Columbia Circuit.

A petition for rehearing having been submitted in this case;

Upon consideration thereof, it is ordered by this Court that the petition for rehearing be, and the same is hereby, granted.

And it is further ordered that the order denying certiorari entered November 30, 1953, be, and the same is hereby, vacated; and that the petition for writ of certiorari herein be, and the same is hereby, granted.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

Mr. Justice Black dissents.

[fol. 1868] SUPREME COURT OF THE UNITED STATES, OCTOBER TERM, 1953

No. 281

STATE OF TEXAS, et al., Petitioners,

vs.

STATE OF WISCONSIN, et al.

ORDER ALLOWING CERTIORARI—January 18, 1954

On petition for writ of certiorari to the United States Court of Appeals for the District of Columbia Circuit.

A petition for rehearing having been submitted in this case;

Upon consideration thereof, it is ordered by this Court that the petition for rehearing be, and the same is hereby, granted.

And it is further ordered that the order denying certiorari entered November 30, 1953, be, and the same is hereby, vacated; and that the petition for writ of certiorari herein be, and the same is hereby, granted.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

Mr. Justice Black dissents.

[fol. 1870] Supreme Court of the United States, October Term, 1953

No. 418

Federal Power Commission, Petitioner,

vs.

State of Wisconsin, Public Service Commission of Wisconsin, et al.

Order Allowing Certiorari—Filed January 18, 1954

The order entered November 30, 1953, denying certiorari is vacated and the petition herein for a writ of certiorari to the United States Court of Appeals for the District of Columbia Circuit is granted.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

Mr. Justice Black dissents.

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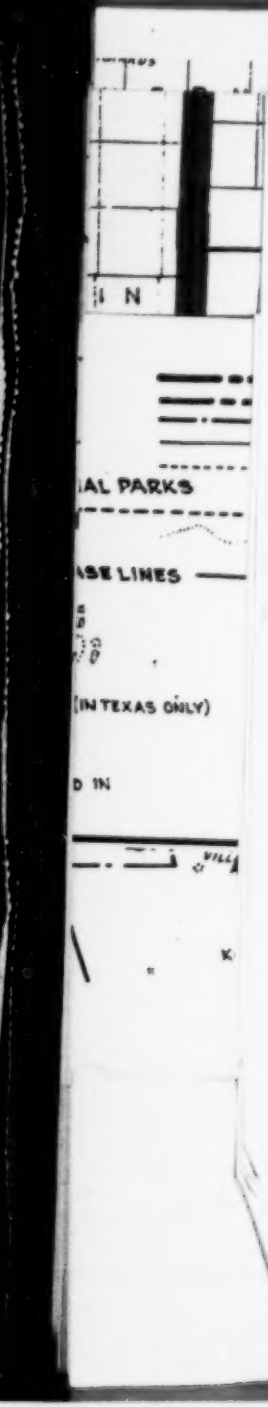
[7951]

Map No. 1

Exhibit 82—"Sheet No. 1 of Geo. F. Kelly's—Millionth Scale Base Map of—The United States —Oil and Gas Edition—(Revised").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Supreme Court of the United States

OCTOBER TERM, 1953

PHILLIPS PETROLEUM COMPANY, *Petitioner,*

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, CITY OF DETROIT, MICHIGAN, CITY OF KANSAS CITY, MISSOURI, CITY OF MILWAUKEE, a municipal corporation, COUNTY OF WAYNE, MICHIGAN, and THE FEDERAL POWER COMMISSION, *Respondents*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

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Supreme Court of the United States

OCTOBER TERM, 1953

No.

PHILLIPS PETROLEUM COMPANY, *Petitioner,*

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, CITY OF DETROIT, MICHIGAN, CITY OF KANSAS CITY, MISSOURI, CITY OF MILWAUKEE, a municipal corporation, COUNTY OF WAYNE, MICHIGAN, and THE FEDERAL POWER COMMISSION, *Respondents*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

Phillips Petroleum Company prays that a writ of certiorari issue to review a judgment of the United States Court of Appeals for the District of Columbia Circuit which reversed an order of the Federal Power Commission holding that Phillips Petroleum Company is not a natural gas company within the meaning of Sections 1(b) and 2(6) of the Natural Gas Act.

OPINION BELOW

The opinion of the Court of Appeals (R. 1855-1873) is not yet reported. The findings and opinion of the Federal Power Commission appear in the record at pp. 1682-1753.

JURISDICTION

The judgment of the Court of Appeals was entered May 22, 1953 (R. 1875). The jurisdiction of this Court is invoked under 15 U.S.C., Section 717r(b) and 28 U.S.C., Section 1254(1).

QUESTION PRESENTED

Petitioner gathers natural gas, which it produces in part and buys in part from others, by networks of pipe lines located in the producing field. The gas moves from the wells through these pipe lines to a plant or plants located in the field where gas from different lines serving different parts of the field is commingled; as the gas moves through the plant liquid hydrocarbons and impurities are removed. A part of the residue gas is used or sold locally, and the remainder is delivered at outlets of the plants to pipe line companies which transport it interstate and resell the gas for use in consumer markets. Phillips is not a natural gas company within the meaning of Sections 1(b) and 2(6) of the Natural Gas Act unless these sales to pipe line companies make it one, and Phillips is not affiliated with any company that is a natural gas company.

The Federal Power Commission found (1) that petitioner's sales are a part of, or an incident of, or an activity related to production and gathering, and for that reason are not subject to regulation under the Natural Gas Act, and (2) that the sales are made during the course of production and gathering and are so closely connected with local incidents of that process as to make federal rate regulation inconsistent with or a substantial interference with the exercise by the affected states of their regulatory functions, and for this additional reason are not subject to regulation under the Natural Gas Act.

The question presented is whether the Court of Appeals erred in holding that the Federal Power Commission's determination was wrong as a matter of law.

STATUTE INVOLVED

The pertinent provisions of the Natural Gas Act (Act of June 21, 1938, ch. 556, 52 Stat. 821, as amended, 15 U.S.C. 717, *et seq.*) are set forth in the appendix.

STATEMENT

The Proceedings Before the Federal Power Commission

By an order dated October 28, 1948 the Federal Power Commission, on its own motion, instituted an investigation to determine (1) whether Phillips was a natural gas company within the meaning of the Natural Gas Act and if so, (2) whether any of its rates were unjust or unreasonable (R. 1647-1660). Upon motion by Phillips, the Commission ordered the scope of the investigation limited to the first question (R. 118-119, 1662-1680).

The State of Wisconsin and its Public Service Commission, The City of Kansas City, Missouri, The City of Milwaukee, The City of Detroit, Michigan, The County of Wayne, Michigan, and the Michigan Public Service Commission intervened in the proceeding, contending that Phillips was a natural gas company and that its sales should be regulated by the Federal Power Commission (R. 5-6, 1687). The producing states of New Mexico, Oklahoma, and Texas intervened, contending that Phillips' sales were not subject to regulation under the Natural Gas Act because regulation of those sales by the Federal Power Commission would interfere with the exercise of the regulatory functions of the states (R. 80-83, 87-93, 100-103). The producing states of Arkansas, Kansas, Louisiana and Mississippi also intervened in opposition to federal regulation of

Phillips' sales (R. 6, 1686-1687), but evidence offered by these states was excluded by the examiner on the ground that no gas produced within these states was involved in the proceeding. The Independent Natural Gas Association of America, Old Ocean Royalty Owners Association, Texas County Land and Royalty Owners Asociation, and Texas Independent Producers and Royalty Owners Association also intervened, and took the position that under the Natural Gas Act sales such as those made by Phillips were not subject to federal regulation (R. 6, 1687).

Hearings were held before an examiner from April 3, 1951 to May 23, 1951. The record made before the examiner consisted of nearly 11,000 pages, including approximately 5,800 pages of testimony and nearly 4,000 pages of exhibits. At the conclusion of the hearings before the examiner, the record was certified to the Commission which heard argument on July 9 and 10, 1951 (R. 1686).

On the record presented to the Commission, the facts relating to Phillips' operations may be summarized as follows:

Phillips is primarily an oil company, which also engages in the production, gathering and sale of natural gas (Ex. 29; R. 862-871, 1687-1689). Phillips is an "independent" producer and gatherer of gas, that is to say, it does not own or operate an interstate transmission system by which gas is moved from the fields to consumer markets, and it is not affiliated with any company that owns such a system. All of Phillips' gas operations are carried on in the producing fields (Ex. 82; R. 1839).

The bulk of the evidence taken by the examiner related to Phillips' production, gathering and sales of natural gas in the producing fields of Oklahoma, Texas and New Mexico. The sales involved are made

to five interstate transmission companies: Michigan-Wisconsin Pipe Line Company, Panhandle Eastern Pipe Line Company, Independent Natural Gas Company, El Paso Natural Gas Company, and Cities Service Gas Company (R. 1690-1711). Each of these companies owns and operates an interstate pipe line and is admittedly a natural gas company within the meaning of the Natural Gas Act (R. 1827-1834).

Gas is delivered by Phillips to these five companies from separate gathering systems. Altogether there are nine gathering systems, including ten different processing plants, involved in the transactions between Phillips and the five companies (R. 1691-1710). Five of the gathering systems are located entirely in Texas, one entirely in Oklahoma and one entirely in New Mexico (Exs. 14A-15A, 48-51; R. 814-819, 896-903, 1697, 1699, 1703, 1705, 1710); in the case of the other two gathering systems, the processing plants are located in Texas and the field and the wells and hence the gathering lines lie in both Texas and Oklahoma (Exs. 12A-13A; R. 810-813, 1691, 1695).

The various gathering systems differ in location, size and physical characteristics, but they all have certain features in common: In each case the gathering system includes a network of converging pipe lines and a processing plant or plants (Exs. 12A-15A, 48-51, 86, 91, 103, 104, 111, 116; R. 810-819, 896-903, 1839-1852). In each case the gas, both that produced by Phillips and that which Phillips buys from others and gathers, moves from the wells through the gathering lines to a processing plant which is itself located at some central or convenient point in the field (R. 1743). More than one line serves each of the processing plants involved, and the final commingling of gas from the different lines occurs in each case in the processing plant (Exs. 45A-45H-I; R. 872-895, 1743).

The processing which occurs within the plants consists in the extraction of liquid hydrocarbons and in the removal of hydrogen sulphide or other impurities (R. 1742-1743).

Approximately half of the gas gathered by Phillips is casinghead gas, that is, gas produced from oil wells in conjunction with oil (Exs. 169-177; R. 282-284, 291, 1298-1639). Much of this casinghead gas is not produced by Phillips but is purchased by it from other independent producers under contracts which provide that the price paid by Phillips shall depend in part upon the gasoline content of the gas and in part upon the price which Phillips receives from the sale of residue gas (Exs. 62, 107, 109B, 124; R. 361-363, 1164, 1224-1229, 1283-1284, 1640-1644). The contracts also require Phillips to return residue gas to these producers for use in their operations (R. 362). Pursuant to these contracts Phillips, after processing this casinghead gas, returns a portion of the residue to the independent producers from whom the casinghead gas was purchased, retaining for its own use or sale that part of the gas not required by these independent producers for their operations. Some of the gas so retained by Phillips it uses in its own operations, some is sold to others for local use, but the greater part of this residue gas is delivered to the five interstate pipe line companies (Exs. 169-177; R. 1298-1644).

The residue gas is delivered to the interstate pipe line company at the outlet or exhaust of the plant (R. 1691-1711, 1743-1744). The outlet or exhaust is a pipe that carries the gas to a point within, or at the border of, the plant yard where the gas enters a pipe line owned and operated by the interstate transmission company which is purchasing the gas. The length of these plant exhausts or outlets varies from

approximately 200 to 1490 feet (Ex. 192; R. 1646). In no case does Phillips perform any operation with respect to the gas beyond the plant yard. The transmission companies transport the gas in interstate commerce from the producing fields and resell it either at city gates or at other points for ultimate consumption in consumer markets located in other states.

A plat of Phillips' Goldsmith gathering system, one of the nine systems involved in this case, is attached to this petition.[1] This plat illustrates many of the aspects of the gathering systems that have been referred to in the preceding description. Thus the plat shows Phillips' gathering lines by which gas is collected in the Goldsmith plant, residue lines through which Phillips returns gas to producers from whom it purchases casinghead gas, the interstate transmission line of El Paso Natural Gas Company, into which Phillips delivers gas at the Goldsmith plant (one of the deliveries involved in this case), and another line owned by Sid Richardson through which gas moves from the Goldsmith plant to a local plant, also owned by Richardson, where the gas is used in the manufacture of carbon black.

On the basis of the whole record, including the facts that have been summarized above, the Federal Power Commission, in an opinion issued on August 22, 1951, found that Phillips' movement, processing and sales of natural gas are a part of Phillips' gathering business, or at least exempt under Section 1(b) of the statute as an incident of, or activity related to its gathering business (R. 1742-1744, 1752-1753).[2] The

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[1] The plat is based on Ex. 91 (R. 1843) and Ex. 50 (R. 901).

[2] It is clear from the Commission's opinion that in formulating this finding it adopted the language used by this Court in Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U.S. 498, 506, 515.

Commission also found that Phillips' sales were made during the course of production and gathering and that regulation of those sales by the Federal Power Commission would be inconsistent with or would substantially interfere with the state regulation by New Mexico, Oklahoma and Texas (R. 1745-1747, 1753-1755).[3] On the basis of these findings the Commission held that Phillips was not a natural gas company within the meaning of the statute and ordered the proceeding terminated (R. 1753). One member of the Commission concurred on the second ground alone, *i.e.*, that federal regulation would be inconsistent with or would substantially interfere with state regulation, and one member dissented (R. 1753-1822).

The Proceedings in the Court Below

The State of Wisconsin and its Public Service Commission, The City of Kansas City, Missouri, The City of Milwaukee, The City of Detroit, Michigan, and The County of Wayne, Michigan, brought five separate proceedings in the United States Court of Appeals for the District of Columbia Circuit, pursuant to Section 19(b) of the Natural Gas Act, to review and to set aside the Commission's order (R. 1-72). Phillips and the states of New Mexico, Oklahoma and Texas intervened in each of these proceedings in support of the Commission's order (R. 72-117). The Commission appeared in each proceeding in defense of its order. The five petitions were consolidated for hearing by an order of the Court of Appeals dated February 5, 1952 (R. 1853-1854).

On May 22, 1953 the Court of Appeals in an opinion

[3] In form this finding is a close paraphrase of the language used by this Court in its opinion in Interstate Natural Gas Co. v. Federal Power Commission, 331 U.S. 682, 690.

written by Judge Edgerton and concurred in by Judge Prettyman, with Judge Clark dissenting, set aside the Commission's order, holding that Phillips' sales to the pipe line companies were not immune from regulation under Section 1(b) of the Natural Gas Act (R. 1855-1873). The last paragraph of the majority opinion reads in part as follows (R. 1865):

> "But the validity or invalidity of the Commission's conclusion that Phillips is not a 'natural-gas company' does not turn upon the evaluation of testimony or upon any facts peculiar to this case. It turns upon the generic question whether the exemption of 'production or gathering' in §1(b) of the Natural Gas Act covers interstate sales of gas by the corporation that produced and gathered it. We think the Act and the decisions of the Supreme Court permit only one answer. We think the Commission has applied an erroneous rule of law."

REASONS FOR GRANTING THE WRIT

I. THIS CASE PRESENTS A QUESTION OF IMPORTANCE IN THE INTERPRETATION AND ADMINISTRATION OF THE NATURAL GAS ACT WHICH HAS NOT BEEN BUT SHOULD BE DECIDED BY THIS COURT.

The question presented in this case is whether sales of gas made by an independent producer and gatherer to an interstate transmission line are subject to regulation under the Natural Gas Act. An "independent" producer or gatherer of natural gas is one whose activities in the gas industry are confined to the production, gathering, processing and sale of gas in the gas fields, who does not own or operate an interstate transmission line by which gas is carried from the field to consumer markets, and who is not affiliated with any

company that does own or operate such a line.[4] Phillips is an independent producer and gatherer in this sense and is not "a natural-gas company" within the meaning of the Natural Gas Act unless its sales to interstate transmission companies make it one.

Section 1(b) of the Natural Gas Act provides that the statute shall apply to the transportation of natural gas in interstate commerce, to its sale in interstate commerce for resale, and to natural gas companies engaged in such transportation or sale, but shall not apply "to the production or gathering of natural gas." This is the first case in which this Court has been called upon to consider the application of the statute to sales of gas made to an interstate transmission company by an independent producer or gatherer. The company involved in *Interstate Natural Gas Co.* v. *Federal Power Commission,* 331 U.S. 682 was an interstate transmission company, and in that case this Court expressly reserved for future decision the question of the jurisdiction of the Federal Power Commission over sales of gas made by independent producers and gatherers. See pp. 37-39, *infra.* In *Colorado Interstate Gas Co.* v. *Federal Power Commission,* 324

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[4] The use of the word "independent" to denote the difference between producers and gatherers who do nothing but produce, gather, process and sell in the gas fields, on the one hand, and the interstate transmission companies which produce, gather, and transport by pipe line to consumer markets, on the other, is well recognized in the industry and by commentators. See, for example, Federal Trade Commission Report to the Senate, pursuant to Senate Resolution 83, 70th Cong., 1st Sess., Senate Document 92, p. 479 and the Report of Commissioners Smith and Wimberly, Natural Gas Investigation (Docket No. G-580) 1948 (U. S. Government Printing Office) pp. 156, 164, 171, 172, 173-174; Berger and Krash, Status of Independent Producers under the Natural Gas Act, 30 Tex. L. Rev., p. 29, footnote 1.

U.S. 581, a case which involved merely a question of rate making method, the company concerned was also an interstate transmission company, and the sales involved were admittedly subject to the Commission's jurisdiction. See pp. 36-37, *infra*.

In the 15 years that have passed since the enactment of the Natural Gas Act, the Federal Power Commission has never attempted to regulate sales for resale in interstate commerce made in the field by independent producers or gatherers; on the contrary, in a series of decisions beginning with *Columbian Fuel Corporation*, 2 F.P.C. 200, in 1940, the Commission has disclaimed authority to regulate such sales.[5]

The decision of the court below is the first decision that applies the provisions of the Natural Gas Act to sales made in the field by an independent producer and gatherer to an interstate transmission company. The decision appears to hold that the Federal Power Commission is under a statutory duty to regulate sales to an interstate transmission company made by an independent producer or gatherer at the end of the physical activities of production or gathering.

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[5] See also The Fin-Ker Oil and Gas Production Co., 6 F.P.C. 92 (1947); Tennessee Gas and Transmission Company and The Chicago Corporation, 6 F.P.C. 98 (1947); Kansas-Nebraska Natural Gas Co. Inc., 6 F.P.C. 664 (1947); R. J. and D. E. Whelan, 6 F.P.C. 672 (1947); Hassie Hunt Trust, 6 F.P.C. 835 (1947); Sinclair Prairie Oil Co., 6 F.P.C. 1059 (1947); La Gloria Corp., 7 F.P.C. 349 (1948); The Superior Oil Co., 7 F.P.C. 627 (1948).

The majority of the Court of Appeals did not refer to the Federal Power Commission's administrative interpretation of the statute. In contrast, it should be noted that this Court in Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U.S. 498, 513, attached importance to the fact that the Commission had never claimed the right to exercise the authority asserted in that case.

The opinion of the majority of the Court of Appeals states that the issue involved does not turn "upon any facts peculiar to this case," but rather "upon the generic question whether the exemption of 'production or gathering' in § 1(b) of the Natural Gas Act covers interstate sales of gas by the corporation that produced and gathered it." The Court of Appeals held that this "generic question" must be resolved in favor of federal regulation. Its decision has consequences that transcend the particular facts involved in this case. In effect the decision requires the Federal Power Commission to undertake the regulation of an entire segment of the natural gas industry that has hitherto not been subject to federal regulation.

Apart from Phillips, there were in 1946 approximately 2300 other independent producers or gatherers who sell gas directly to natural gas companies (R. 728-731).[6] Presumably some or all of the sales of these

[6] It has been estimated that there are approximately 8000 independent producers of natural gas in the United States. See Report of Commissioners Smith and Wimberly, Natural Gas Investigation, Federal Power Commission, Docket No. G-580 (U. S. Government Printing Office) p. 194. This number presumably includes the 2300 who are known to sell gas directly to interstate transmission companies. Independent producers who do not now sell gas in interstate commerce directly to interstate transmission companies may, under the decision of the Court of Appeals, become subject to federal regulation if at any time in the future they should decide to make such sales. And even if these independent producers do not sell directly to interstate transmission companies, the return that they now receive for their gas may be substantially affected by federal regulation. For example, the price Phillips pays independent producers for casinghead gas depends in part upon the price Phillips receives for the sale of the residue gas. See p. 6, *supra*. Federal regulation of Phillips' sales to the interstate transmission companies will directly affect the prices which these producers receive at the wellhead.

other independent producers or gatherers must be regulated by the Federal Power Commission if the decision of the court below is correct.

The consequences of the decision of the Court of Appeals cannot be fully described merely in terms of the regulation of the prices charged in certain sales of gas in interstate commerce. If, as the Court of Appeals held, Phillips is a "natural-gas company" in the statutory sense, then the Commission may fix the rate of return received on all of the producing and gathering facilities used in the gas operations involved in this case. See *Colorado Interstate Gas Co.* v. *Federal Power Commission,* 324 U.S. 581. To do this the Commission, in many instances, would have to allocate investment and operating costs as between Phillips' gas operations and its petroleum operations since the same physical facilities are used in both. The same consequences would follow in the case of other independent producers or gatherers similarly situated.

The business of producing and gathering natural gas as it is carried on by the independents bears little resemblance to the quasi-public services provided by the interstate transmission companies. The business of discovering deposits of oil and gas, reducing the gas to possession and gathering it for delivery to a buyer, must be conducted within the limits of detailed state regulations designed to conserve gas and to avoid waste in its production and exploitation. In most cases, as is true of Phillips, the gas operations of these independents are incidental or ancillary to larger operations in the petroleum industry, and the physical facilities they use in their gas operations are also an integral part of their petroleum business.

The regulation of this segment of the gas business, involving, as it will, the supervision of the activities

of hundreds of independent businessmen,[7] the segregation of investment as between gas operations and petroleum operations, the determination of a rate base and the fixing of a rate of return for a business whose success depends upon continuing capital expenditures for exploration, and the day-to-day adjustment between federal regulatory power and the regulatory measures of the states, will present the Federal Power Commission with problems of an intricate, novel and complex character. The Commission should not be required to embark upon this task until its authority to undertake regulation has been definitely established by a decision of this Court.

This case also raises an important question of the relation between federal and state regulatory power. The producing states of Oklahoma, Texas and New Mexico, within whose boundaries the gas fields involved in this case lie, intervened before the Commission and in the Court of Appeals and resisted federal regulation of Phillips' sales on the ground that it would be inconsistent with and interfere with the states' exercise of their valid regulatory authority. On the basis of evidence that these states presented to the Commission, it found that federal regulation of Phillips' sales would cause the conflict feared by the states. The Court of Appeals disregarded this finding. See pp. 32-36, *infra.*

This Court has recognized that the producing states have a legitimate local interest in the exploitation of the gas reserves that lie within their boundaries. It

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[7] The increase in the size of the regulatory problem is indicated by the fact that in 1947 there were 2300 independent producers and gatherers who sold directly to natural gas companies (R. 728-731) as compared with some 115 natural gas companies then subject to regulation by the Federal Power Commission. Statistics of Natural Gas Companies, 1947, p. v.

has also recognized that a direct and substantial relationship exists between this legitimate local interest of the states and the prices received in the field by producers and gatherers. See *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U.S. 179. If the Natural Gas Act authorizes federal regulation of the field prices charged by independent producers and gatherers in transactions with interstate transmission companies, this federal power is dominant. Its bare existence may, its exercise certainly will, invalidate conflicting or inconsistent state regulations. Cf. *Illinois Gas Co.* v. *Central Illinois Public Service Co.*, 314 U.S. 498; *Public Utilities Commission of Ohio* v. *United Fuel Gas Company*, 317 U.S. 456.

Whether the intrusion of federal regulation in this field of activity that has hitherto been reserved to the states, will conflict with state regulation, as contended by the producing states and as found by the Commission, or whether that conflict is "immaterial," or, as a matter of law, cannot exist, as suggested by the Court of Appeals, is a question which should be resolved by this Court.

II. THE DECISION OF THE COURT BELOW IS WRONG AND SHOULD BE REVERSED.

A. THE INTERPRETATION OF THE NATURAL GAS ACT ADOPTED BY THE COURT BELOW IS INCONSISTENT WITH THE INTENT OF CONGRESS AS IT IS EVIDENCED BOTH BY THE WORDS OF THE STATUTE AND BY ITS LEGISLATIVE HISTORY.

The Court of Appeals stated its construction of the last clause of Section 1(b) of the Natural Gas Act in the following words:

> "It proceeds to exempt both 'local distribution' and 'production or gathering', but it exempts nothing between 'production or gathering' and 'local distribution.' The exemption of production

or gathering does not exempt sales made after production and gathering have been completed."

With this construction of the statute as a premise, the Court of Appeals held that Phillips' sales, as a matter of law, are made after production and gathering are complete and therefore are subject to regulation. It is not entirely clear whether in so holding the Court of Appeals meant that Phillips' sales were immediately preceded by activities, (for example processing or "transportation" in the statutory sense) that could not be covered by the words "production or gathering," or whether it meant that whatever might be the status of the immediately preceding activities, the sales in any event occurred immediately at the end of production and gathering and hence were made after production and gathering were complete.

Although there are statements in the opinion that might appear to support the first of these interpretations,[8] the second interpretation seems to be more

[8] The Court of Appeals mentions that "processing has intervened" before the sales are made and that the gas moves short distances through the outlets of the processing plants (240 feet in the example mentioned by the court) to the pipe lines of the transmission companies. It also states that the sales are made "after the gas has been gathered in the trunk lines" (R. 1862). The court, however, does not appear to have held "generically" that processing can never be a part of production or gathering. For the reasons stated in the text it seems unlikely that the court intended to base its decision on the ground that, on the particular facts of this case, Phillips' processing was not a part of production or gathering, or on the ground that on the facts Phillips was engaged in the transportation of gas in interstate commerce in the statutory sense. If the court intended to rest its decision on such grounds, it improperly disregarded the findings made by the Commission as is pointed out at pp. 28-31, *infra*.

consistent with the general tenor of the opinion. There was no dispute before the Commission or the Court of Appeals that the delivery of the gas to the transmission companies was the final or culminating step in Phillips' operations. But the question whether the activities immediately preceding the sales were a part of production and gathering was in dispute and was litigated before the Commission. On the basis of the whole record, the Commission found that those activities were a part of production and gathering. Under the usual rules of judicial review, this finding of the Commission should have been upheld if supported by substantial evidence. See pp. 28-31, *infra*. If the court below had intended to hold that the activities preceding the sales were not a part of production and gathering, surely it would have appraised the evidence on which the Commission's finding rested. And if the court below had intended to make an independent determination as to whether those activities were a part of production and gathering, surely it would have recognized that the determination turned on facts peculiar to Phillips' operations. It also seems likely that if the court had intended to hold that the activities preceding the sales were not a part of production and gathering, it would have attempted to define the point in time and space at which it held that Phillips' producing and gathering activities ended.

None of these considerations is reflected in the court's opinion; the court treated the case as if it involved no disputed questions of fact, it expressly stated that the ultimate issue did not turn "upon any facts peculiar to this case," it did not attempt to define the point in time and space at which Phillips' producing and gathering activities ended, and it, in effect,

dismissed the findings of the Federal Power Commission as irrelevant. Taking all of these considerations together, it seems fair to conclude that the Court of Appeals held that Phillips' sales were made after production and gathering were "complete" because the sales occurred at the end of production and gathering.

On any view of the reasoning of the Court of Appeals, it is clear that the court construed the words "production or gathering" in Section 1(b) as describing certain physical activities and not as describing the performance of an economic function or the conduct of a business. This construction of the words was essential to the court's conclusion that Phillips' sales are made after production and gathering are complete. It can hardly be disputed that on the record in this case both the processing and the sales are a part of and an incident of the business of producing and gathering natural gas. The Commission so found, and its findings were fully supported by the evidence. The sale of gas is the ultimate economic purpose for which an independent produces and gathers gas. Phillips' drilling of wells, its collection of gas in the processing plants, its processing to extract liquid hydrocarbons and to improve the salability of the gas by removing impurities, are all intermediate steps toward that ultimate end. Thus, if the words "production or gathering" are regarded, as they should be, as covering the conduct of a business, or the performance of an economic function, production and gathering are not complete until the gas is sold.

The reasoning of the Court of Appeals, on the other hand, rests on a distinction between the different activities involved in the single business or economic process of production and gathering. That court apparently

regards Phillips' acts in drilling wells, removing gas from the ground, and collecting the gas at a common point, as falling on one side of the statutory line, and the act of delivery to the interstate transmission companies and, possibly, the act of processing, as falling on the other. Any such distinction must depend for its validity upon different physical qualities and conditions of the acts in question, because the distinction cannot be defended in economic terms.

The Court of Appeals erred in thus construing the words "production or gathering" as meaning only part and not all of the business of production and gathering, and in determining the application of the statutory words solely by a physical test without regard to the economic function involved or the nature of the business sought to be regulated. Both the words of the statute and its legislative history show the Act was conceived and drafted in terms of the economic functions performed by various branches of the gas industry. The economic function or business of local distribution at one end of the economic process, and the economic function or business of production and gathering at the other, were to be free of federal regulation. The economic function or business of transporting gas from the producing fields to the consuming market, the intermediate stage of the process, was to be regulated because it was in that aspect of the industry that economic evils were believed to exist. Congress intended to regulate the business of the interstate transmission companies who owned and operated pipe lines by which gas was carried from the producing fields to consumer markets. It did not intend to regulate the business of independent producers or gatherers of natural gas, or any of the in-

cidents of that business including sales for resale in interstate commerce.[9]

The intent of Congress is evidenced by the specific exclusion of "production or gathering" in subsection (b) of Section 1. It is also evidenced by subsection (a) of Section 1. That subsection begins by referring to reports of the Federal Trade Commission made to Congress pursuant to Senate Resolution 83 (70th Cong., 1st Sess.), and then states, ". . . it is hereby declared that *the business of transporting and selling natural gas for ultimate distribution to the public* is affected with a public interest, and that Federal regulation in matters relating *to the transportation of natural gas* and *the sale thereof in interstate and foreign commerce* is necessary in the public interest." (Italics supplied) The words thus used to describe *the business* which Congress intended to regulate are words that describe the business of the interstate transmission companies, not the business of an independent producer or gatherer.

The provisions of Section 7(c), as amended in 1942, also evidence an intent not to regulate sales of independent producers and gatherers at the end of gathering. That section now provides that no one shall engage in the sale of natural gas that is subject to the jurisdiction of the Commission, or construct or operate facilities for such a sale, without first obtaining a certificate of public convenience and necessity from the

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[9] This is the view reached by independent commentators who have examined the legislative history. Comment, 59 Yale L. J. 1468, 1479-80, 1510 (1950); Note, 52 Col. L. Rev. 135, 136 (1952); Berger and Krash, Status of Independent Producers under the Natural Gas Act, 30 Tex. L. Rev. 29, 61 (1951).

Commission. Gathering facilities are clearly excluded from regulation by Section 1(b); it is inconceivable that the provisions of Section 7(c) could have been intended to apply to gathering facilities. Yet if a sale at the end of gathering is subject to the Commission's jurisdiction, Section 7(c) on its face would appear to cover the gathering facilities from which such sales are made. Where one construction of Section 1(b) will make it conflict with Section 7(c) and another construction will harmonize the two, the latter construction should be adopted, particularly where, as here, that construction conforms with the original intent of Congress as reflected by the legislative history of the Act.

The reference in Section 1(a) to the reports of the Federal Trade Commission is significant because it shows that Congress was prompted to pass the Natural Gas Act by disclosures made in the investigation of public utility corporations and holding companies conducted by the Federal Trade Commission pursuant to Senate Resolution 83, 70th Cong., 1st Sess.[10] The portions of that report dealing with the natural gas industry were directed to the necessity for regulating the interstate transmission companies. The evils pictured in the report as requiring regulation were evils that resulted from the monopoly control by the interstate transmission companies of the "vital link

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[10] S. Doc. 92, Part 84-A, ch. XII, Final Report, Federal Trade Commission to the Senate, pursuant to S. Res. 83, 70th Cong., 1st Sess., hereinafter referred to as "FTC Report."

In Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 610, this Court treated the FTC Report as relevant to the question of Congressional purpose.

of transportation" (FTC Report, p. 610); they were not evils that related in any way to the prices charged by independent producers and gatherers. The report did not recommend that the prices charged in the field by independent producers and gatherers should be regulated. On the contrary, the report depicted independent producers and gatherers as standing in need of protection against the monopolistic, predatory and discriminatory practices of the large interstate transmission companies (see particularly FTC Report, pp. 583, 591-592, 602, 608-611).[11]

The first hearings on proposed legislation to regulate the natural gas industry were held in the 74th Congress, 2d Session, by a subcommittee of the Committee on Interstate and Foreign Commerce of the House of Representatives on a bill designated as H.R. 11662. That bill, which was a predecessor of the bill that was finally enacted into law, has been described by this Court as "substantially similar to the Natural Gas Act." *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.,* 337 U.S. 498, 505 (Footnote 7). Dozier A. DeVane, Solicitor for the Federal Power Commission, who had helped draft the bill, was the first witness before the committee. He explicitly and repeatedly stated that the legislation was not intended to regulate field prices, "gathering rates" or "the gathering business." The relevance of these statements and their weight in construing the statute need no justification or comment, because the statements were expressly cited and relied upon by this Court in its opinion in *Federal Power Commission* v. *Panhandle*

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[11] See also the remarks of Colonel Chantland of the Federal Trade Commission staff in the Hearings on H.R. 11662, 74th Cong., 2d Sess. (Hearings, p. 51).

Eastern Pipe Line Co., 337 U.S. 498, 505 (Footnote 7).[12]

Throughout the subsequent course of the legislative history, the committee hearings and reports and the debates show that Congress intended to limit federal regulation to the business of the interstate transmission companies, that is, the business of transporting gas from the producing fields to consumer markets, including sales for resale made in the course of that business, and that Congress did not intend to regulate the activities of independent producers or gatherers or any sales made by them at arms-length in the gas fields to interstate transmission companies.[13]

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[12] Mr. DeVane's statements are set forth in part in Footnote 7 (337 U.S. at p. 505) of the Court's opinion. Similar statements made by Mr. DeVane, which are not quoted in the footnote, appear at pp. 28 and 42-43 of the committee hearings (Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce, House of Representatives, 74th Cong., 2d Sess., on H.R. 11662).

[13] See Hearings on H.R. 11662, 74th Cong., 2d Sess., 1936, 11-12, 17, 24, 27-34, 47-53, 55-57, 68-70, 72, 85-86, 89-90, 111, 150-159; H. Rep. 2651, 74th Cong., 2d Sess., 1936, 1-2; Hearings on H.R. 4008, 75th Cong., 1st Sess., 1937, 24-34, 39, 48-52, 70, 84 *et seq.*, 121-122; H. Rep. 709, 75th Cong., 1st Sess., 1937; 81 Cong. Rec., 6721-6723, 9312-9315; 83 Cong. Rec., 8343-8347.

The legislative history contains a few references to sales by "producing companies." In each case the reference is made in a context that makes it clear that the reference is to an integrated transmission company which also produces gas. For example, in the hearings on H.R. 4008 before the Committee on Interstate and Foreign Commerce of the House of Representatives in the 75th Congress, 1st Session, one of the witnesses stated that the "wholesale rate" subject to regulation under the bill was the rate "under which either a transmission company or a *producing and transmission company* sells natural gas." (Italics supplied) (Hearings before the Committee on Interstate and Foreign Commerce, House of Representatives, 75th Cong., 1st Sess., on H.R. 4008, p. 39.)

The opinion of the Court of Appeals does not disclose that the majority ever considered the legislative history viewed as a whole. It indicates rather that the majority relied primarily upon a single aspect of that history, *i.e.*, the consideration given by Congress to the so-called "gap" in regulatory authority. The majority opinion points out that the committee of the House of Representatives in reporting the bill that became the Natural Gas Act stated that its purpose was to close the regulatory "gap" created by Supreme Court decisions holding that the states had no power to regulate sales made in interstate commerce by transmission companies. The opinion asserts that at the time the statute was passed the states lacked authority to regulate sales of the kind made by Phillips, and that it follows that its sales fall within the scope of the statute.

This reasoning misconceives the relationship between the so-called "gap" in regulatory authority and the intent of Congress. The legislative history, as a whole, shows that Congress did not decide what business or economic function it wished to regulate solely by reference to the then existing state of constitutional law. The question of what business or economic function was to be regulated was an economic question, and in the first instance Congress dealt with it in economic terms. The Federal Trade Commission Report had disclosed that the evils existing in the gas industry were a result of the position and practices of the interstate transmission companies. Accordingly, it was the business of those companies that Congress determined to regulate. There was no evidence presented to Congress of any practices by independent producers or gatherers that had created, or threatened

to create, any economic problems or evils that required federal regulation. Because there were no evils in that aspect or function of the industry that required correction, there was no occasion for Congress to consider whether any gap existed in the power to regulate independent producers or gatherers. The "gap" in regulatory authority was conceived and considered by Congress in terms of the activities of the interstate transmission companies and not in terms of the activities of independent producers or gatherers. The court decisions that were called to the attention of Congress as evidencing the "gap" *e.g., Public Utilities Commission of Rhode Island* v. *Attleboro Steam & Electric Co.,* 273 U.S. 83 and *Missouri* v. *Kansas Natural Gas Co.,* 265 U.S. 298, involved the activities of interstate transmission companies and not the activities of independent producers or gatherers of gas. Even if it were true that a "gap" existed in the authority to regulate the activities of independent producers or gatherers, as distinguished from the activities of interstate transmission companies, that particular "gap" was not called to the attention of Congress. There was no reason for Congress to consider such a "gap" because it was not proceeding on the assumption that the activities of independent producers and gatherers required regulation.

Consideration of the constitutional status of state regulatory power at the time the Natural Gas Act was passed throws additional light on the nature and limits of the "gap" that Congress intended to close. At that time it had long been recognized that the states might regulate matters of local concern even though the regulation affected interstate commerce. *Willson* v. *Black-bird Creek Marsh Co.,* 2 Pet. 245; *Cooley* v. *Board of Wardens of the Port of Philadelphia,* 12 How. 298; *South Carolina State Highway Department*

v. *Barnwell Brothers, Inc.*, 303 U.S. 177, 184-185, 188-189. It had also long been recognized that the states had a special interest in natural gas and that its regulation touched rights of "an essentially local character." See *Ohio Oil Company* v. *Indiana, (No. 1)*, 177 U.S. 190, 211-212; *Lindsley* v. *Natural Carbonic Gas Co.*, 220 U.S. 61; *Pierce Oil Corp.* v. *Phoenix Refining Company*, 259 U.S. 125; *Walls* v. *Midland Carbon Co.*, 254 U.S. 300, 319; *Bandini Petroleum Co.* v. *Superior Court, Los Angeles County, Calif.*, 284 U.S. 8; *Henderson Co.* v. *Thompson*, 300 U.S. 258, 264. It can hardly be doubted that under these long standing principles of constitutional law the producing states had authority to regulate, for some purposes, sales of gas made in the gas field by a producer or gatherer even though the sales occurred in interstate commerce. Indeed it was in reliance on these principles that this Court in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U.S. 179, held that the state of Oklahoma (one of the producing states concerned in this case) could validly fix minimum field prices for gas even though the gas was sold in interstate commerce.[14]

Congress recognized and deferred to the existence of this state regulatory authority. *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U.S. 498, 509-513; *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U.S. 682, 690; and cf. *Panhandle Eastern Pipe Line Co.* v. *Public Service Commission of Indiana*, 332 U.S. 507, 521, 523-524.

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[14] In its opinion this Court cited Cooley v. Board of Wardens of the Port of Philadelphia, 12 How. 298 and South Carolina State Highway Department v. Barnwell Brothers, Inc., 303 U.S. 177, decisions which antedated passage of the Natural Gas Act.

The relation between the field prices received by independent producers and gatherers and the conservation measures of the states was well known at the time the Natural Gas Act was passed. Congress was aware of this relationship and undoubtedly recognized that federal regulation of the field prices charged by independent producers and gatherers would be bound to affect these regulatory measures of the states. This consequence would follow without regard to whether the state regulation was the same kind of regulation provided for in the Natural Gas Act, and without regard to whether the states under the constitution could regulate for the same purposes that prompted passage of the Natural Gas Act. The states had authority under the constitution to regulate sales like those made by Phillips in some ways and for some purposes; they also had authority to impose other regulations that would be directly and substantially affected by federal regulation of sales like those made by Phillips. Congress, in closing the "gap" in regulatory authority, did not intend to authorize the Federal Power Commission to intrude in any general regulatory area in which its exercise of power might conflict or interfere with regulations of any character that the producing states were competent to impose.

B. THE COURT BELOW IMPROPERLY DISREGARDED THE FINDINGS MADE BY THE FEDERAL POWER COMMISSION.

1. THE COMMISSION'S FINDING THAT PHILLIPS' SALES WERE MADE DURING THE COURSE OF PRODUCTION AND GATHERING.

Congress did not attempt to define the particular activities covered by the words "production or gathering," nor did it lay down in the statute a rigid rule for determining the point in time and space at which production or gathering end. Congress delegated to the

Federal Power Commission authority to apply the general words of the statute to particular situations and to determine, on the facts of each case, the point in time and space at which production and gathering end.[15] This Court has repeatedly said that such a determination by the administrative agency whose duty it is, in the first instance to apply the statute, should be accepted if it is supported by the evidence and has a reasonable basis in law. See *United States* v. *Wabash R. Co.*, 321 U.S. 403, 408; *Cardillo* v. *Liberty Mutual Co.*, 330 U.S. 469; *National Labor Relations Board* v. *Hearst Publications, Inc.*, 322 U.S. 111, 130; *Unemployment Compensation Commission of Alaska* v. *Aragon*, 329 U.S. 143, 153-154.

The Commission found on the record as a whole that Phillips' sales of gas to the interstate transmission companies are made during the course of production and gathering (R. 1745) and that the sales are made as a part of Phillips' gathering business, or they are incidents of or activities related to that business (R. 1742-1744, 1752-1753). The Court of Appeals' treatment of this finding cannot be justified under any permissible interpretation of the statute or by any established principles of judicial review.

We have pointed out at pp. 16-18, *supra*, that on one

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[15] Similarly, Congress has authorized the Interstate Commerce Commission to determine "the point in time and space at which the carrier's transportation service ends." See United States v. Wabash R. Co., 321 U.S. 403, 408. And compare the Congressional delegation of authority to the Director of the Bituminous Coal Division of the Department of Interior to determine whether a person was both a producer and a consumer of coal so as to be entitled to exemption under the Bituminous Coal Act of 1937. See Gray v. Powell, 314 U.S. 402.

view of its opinion the Court of Appeals did not reject this finding on the ground that it is unsupported by the evidence; the court avoided the impact of the finding by construing the words "production or gathering" as covering only some of the activities performed in the course of the business of production and gathering and by holding that a sale made at the end of production and gathering was not one of the activities excluded from regulation. If this construction of the statute was wrong, as we contend it was, and if the words "production or gathering" in Section 1(b) are construed, as they should be, to cover the whole of the business of production and gathering, then the Commission's finding that Phillips' sales were made as a part of producing and gathering has a reasonable basis in law and, since it is also fully supported by the evidence, should have been accepted by the court below.

The opinion of the Court of Appeals may, however, be regarded as resting on the narrower ground that in the circumstances of this case Phillips' sales were immediately preceded by particular activities, for example, processing, that are not "production or gathering" in the statutory sense. See pp. 16-17, *supra*. Since the Commission found that these activities were a part of production or gathering (R. 1742-1744, 1752-1753), the Court of Appeals could not have rested its decision on this ground without rejecting the finding of the Commission and, in effect, substituting a finding of its own.

Whatever may be the case with respect to the broad question whether all sales made at the end of production and gathering are subject to the statute, it is clear

that the question whether particular activities are covered by the statutory words "production or gathering" is committed in the first instance to the judgment of the Federal Power Commission, and that in exercising its judgment the Commission is required to consider and pass upon matters of fact.

Under the usual rules of statutory construction, Congress must have intended that in applying the words "production or gathering" to particular activities, the Commission should be guided by the meaning that those words customarily bear in the gas industry.[16] What that meaning is raises a question of fact. In this case the Commission considered that question of fact in deciding that the physical activities preceding Phillips' sales are a part of production and gathering (R. 1690-1691). In addition, the application of the general meaning of the statutory words to particular activities requires consideration of other questions of fact. For example, the question whether processing is a part of production or gathering may, in a particular situation, depend upon where the processing takes place, what business the processing is a part of, and in general what economic and physical relationship exists between the processing and other activities that are admittedly covered by the statutory language. Similarly the question whether particular pipe lines are gathering lines or interstate transmission lines is a question that requires consideration of

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[16] O'Hara v. Luckenbach S. S. Co., 269 U.S. 364, 370; United States v. Maher, 307 U.S. 148, 155; Order of Conductors v. Swan, 329 U.S. 520, 525; Carter v. Liquid Carbonic Pacific Corporation, 97 F. 2d 1 (9th Cir. 1938); Roberts v. Tennessee Coal, Iron & R. Co., 255 Fed. 469 (5th Cir. 1919) *cert. denied* 250 U.S. 659.

the facts relating to both the economic function of the lines and their physical characteristics.[17]

The Commission resolved factual questions of this kind when it decided that the activities immediately preceding Phillips' sales are a part of production and gathering. That decision was an exercise of the "expert, experienced judgment" of the administrative agency charged by Congress with the duty of applying the general words of the statute to particular situations. Compare *Gray* v. *Powell,* 314 U.S. 402, 413. This Court has repeatedly said that such a determination should be accepted by a reviewing court if it is supported by substantial evidence. *Gray* v. *Powell,* 314 U.S. 402, 413; *United States* v. *Wabash R. Co.,* 321 U.S. 403.

2. The Commission's finding that federal regulation of Phillips' sales would conflict with state regulation.

In *Interstate Natural Gas Co.* v. *Federal Power Commission,* 331 U.S. 682, 690, this Court stated that where sales of gas in interstate commerce are made

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[17] No doubt any movement of gas destined for interstate transportation (beginning at the point at which the gas leaves the ground) is interstate movement in the sense that it is subject to the power of Congress, but the words "transportation of natural gas in interstate commerce" in Section 1(b) of the statute can hardly be read to apply to all such movement. If the words should be read in that way all gathering of gas intended for interstate transportation would be subject to federal regulation from the time the gas left the ground, and the exclusion of "gathering" in Section 1(b) would be meaningless. The determination of the point at which the gathering movement ends and "transportation," in the statutory sense, begins must be made in the first instance by the Commission on the basis of its appraisal of the relevant facts.

during the course of production and gathering and "are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach."

In addition to finding that Phillips' sales were made during "the course of production and gathering," the Commission also found that the sales are so connected with the local incidents of production or gathering as to make rate regulation by the Commission "inconsistent or a substantial interference with the exercise by the affected states of their regulatory function" (R. 1745). The Commission took the view that its finding that Phillips' sales are made in the course of production and gathering was in itself a sufficient basis for denial of jurisdiction and that its finding that regulation of Phillips' sales would conflict with state regulations coupled with the finding that the sales were made during the course of production and gathering supplied an additional ground for its decision (*Id.*).

The Commission's finding that federal regulation of Phillips' sales would conflict with state regulatory measures is fully supported by the evidence. Much of the evidence that supports the finding was presented by the intervening states of Oklahoma, Texas and New Mexico (R. 375-592, 602-619).

The state of Oklahoma has fixed the minimum field prices to be received by producers as a condition to the production of gas in the Guymon-Hugoton Field (Exs. 119, 120, 120A; R. 1246-1283). The orders made by the administrative agency of the state of Oklahoma

in the Guymon-Hugoton Field were before this Court and their constitutionality sustained in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U.S. 179. Phillips produces gas in that field and the state of Oklahoma has construed its orders as applying to some of Phillips' transactions that are involved in the instant case. See *Phillips Petroleum Co.* v. *Oklahoma*, 340 U.S. 190.

The states of Texas and New Mexico have not attempted to fix minimum prices in the field; their representatives testified that those states have deliberately adopted the policy of permitting field prices of gas to be fixed by competition rather than by regulation (R. 426-427, 431, 457-461, 464-465, 556-557). The regulation of field prices by federal authority would conflict directly with this price policy of the two states.

The conflict envisaged by this Court in its statement in the *Interstate* case is not limited to the clash of conflicting price orders or price policies. Federal regulation of field prices of natural gas, as the Commission found, will directly conflict with other regulatory measures adopted by the states which do not operate directly upon prices, but which are affected by prices, or which depend for their effectiveness and validity upon the prices which producers and gatherers receive in the field. The states of Oklahoma, Texas and New Mexico have all adopted such measures as proration, unitization, and regulations relating to premature abandonment, drilling, flaring, well spacing, etc. (R. 375-592, 602-619). On the basis of the evidence before it, the Commission found that federal regulation of Phillips' sales would be inconsistent with and would conflict with these state regulatory measures.

In so finding, the Commission pointed out, among other things, that a direct relation existed between price and conservation and that fixing of maximum prices by a federal agency would, by reducing the return of the producers, run counter to state conservation efforts (R. 1745-1747).

The court below held that the Commission erred as a matter of law in finding that Phillips' sales were made during "the course of production and gathering," and on that ground dismissed the Commission's finding with respect to conflict with state authority as "immaterial" (R. 1863).[18] At the same time, the majority of the court stated that it did not intend to imply that the Commission's finding of conflict with state regulatory authority was "supportable" and added, "On the contrary, as the Supreme Court has held, federal protection of consumers against exorbitant rates is not inconsistent with the exercise by the producing state of its regulatory functions. *Interstate Natural Gas* case, . . ." (R. 1863-1864).

We submit that the Court of Appeals erred in holding that Phillips' sales were not made during production and gathering. See pp. 18-31, *supra*. The court also erred in assuming that Phillips' sales are subject to regulation unless it is shown *both* that the sales are made during the course of production and gathering

[18] This statement occurs in footnote 11 of the court's opinion. The text surrounding the footnote appears to assume that the Commission did not find both that the sales were made "during the course of production and gathering" and that federal regulation of the sales would conflict with the exercise by the states of their regulatory functions. The Commission's finding is clearly in the conjunctive and not the disjunctive (R. 1745), and the court's assumption to the contrary was mistaken.

and that regulation of the sales would conflict with state authority. The Natural Gas Act was not intended by Congress to apply to sales made by independent producers or gatherers during the course of their business. See pp. 19-27, *supra*. It follows that once it is determined that a sale is made by an independent producer or gatherer during the course of production and gathering the statute does not apply. In those circumstances, no more specific showing of conflict with state authority is required.

In any event the Court of Appeals erred when it suggested that the Commission's finding on the point of conflict was not "supportable." That finding was supported by substantial evidence. In fact, the Commission's finding on this point is entitled to particular weight. Not only is the Commission experienced in the industry and familiar with the character and purpose of state gas regulation, but it is the agency that would administer and enforce federal regulation. The Commission is, therefore, in a better position than any reviewing court to measure the consequences that might reasonably be expected to follow the exercise of the federal authority here asserted.

The court below, although indicating that it thought the Commission's finding not supportable, did not explain why it believed the evidence before the Commission was inadequate. The reference to the *Interstate* case suggests that the court was expressing the view that as a matter of law there could be no conflict between federal regulation and the exercise by the producing states of their regulatory functions. The reference to the *Interstate* opinion is obscure; nothing in the language of the opinion suggests that as a

matter of law conflict could not exist. On the contrary, the opinion plainly recognizes the possibility of conflict. In this respect the statement by the Court of Appeals appears to be in direct conflict with the views expressed by this Court.

C. THE COURT BELOW MISINTERPRETED AND MISAPPLIED DECISIONS OF THIS COURT.

The opinion below states ". . . the Supreme Court has repeatedly upheld the Commission's authority under the Natural Gas Act to regulate the rates at which a producer and gatherer of natural gas sells it, after producing and gathering it, to pipeline companies for resale in other states" (R. 1860). The two decisions of this Court cited to support this statement are *Colorado Interstate Gas Co.* v. *Federal Power Commission,* 324 U.S. 581 and *Interstate Natural Gas Co.* v. *Federal Power Commission,* 331 U.S. 682. Neither of these cases held that the Natural Gas Act applies to sales made by an independent producer or gatherer at the end of production or gathering. In the *Colorado Interstate Gas Co.* case the question was not whether the reference to "production or gathering" in Section 1(b) precluded regulation of the rates; the sale in that case was made by one interstate transmission company to another interstate transmission company with which it was affiliated through stock ownership, and was admittedly the kind of sale covered by the statute. The question was whether the reference to "production or gathering" in Section 1(b) prevented the Federal Power Commission, as a matter of rate making procedure, from including in the rate base the production and gathering properties.

This Court held that the properties might be included.[19] That decision is not a precedent for regulation of sales made by an independent producer and gatherer. See *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U.S. 498, 506-507.

In *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U.S. 682, the sales were made by a company that was admittedly a natural gas company in the statutory sense apart from the sales in question. The sales were made by Interstate as a part of its interstate transmission business to other interstate transmission companies. Physically the sales were made out of interstate transmission lines which were in fact the lines by which Interstate carried gas from the producing fields to consumer markets. The sales were not made immediately at the end of, or as the culmination of the gathering process but were made after interstate transportation, in the statutory sense, had begun. The Federal Power Commission had found that the gathering process was complete at some point prior to delivery of the gas (see 331 U.S. 682, 692). All of these facts taken together show that the sales were not made during the course of any aspect of Interstate's business that might properly be described as the business of producing or gathering; on the contrary, the sales were made during the course

[19] This Court did not hold that the Commission was required to include the producing and gathering properties in the rate base; its holding on Section 1(b) was confined to the point that the section did not prohibit the inclusion of the properties. The decision can properly be regarded as a reiteration and application of the holding in Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, that in a proceeding to review a rate order it is "the result reached not the method employed which is controlling." (324 U.S. at p. 603)

of the business of transporting gas from the producing field to consuming markets.

It should also be noted that in the *Interstate* case there was no evidence that federal regulation of Interstate's sales would conflict with state authority; Louisiana, the producing state involved, had participated in the proceedings before the Federal Power Commission and did not oppose federal jurisdiction or contend that its exercise would conflict with state regulatory measures (see 331 U.S. 682, 691).

In its opinion in the *Interstate* case this Court disavowed any intention of deciding whether sales made by an independent producer or gatherer are subject to the Commission's jurisdiction. The Court referred to the *Columbian* case, 2 F.P.C. 200 (1940) (in which the Commission applied the same jurisdictional test that it used in the instant case) and the *Billings* case, 2 F.P.C. 288 (1940), and stated (331 U.S. 682, 690-691, footnote 18):[20]

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[20] In the Columbian case, 2 F.P.C. 200 (1940), the Commission held that it did not have jurisdiction under the Natural Gas Act to regulate rates charged for sales of natural gas in interstate commerce for resale by a company engaged solely in the production and gathering of natural gas where the sales were made as an incident to and immediately upon completion of the company's production and gathering of the natural gas and the company was not otherwise subject to the jurisdiction of the Commission. In the Columbian case, as is true here, the sales were made at the end of production and gathering.

In the Billings Gas Company case, 2 F.P.C. 288 (1940), the Commission held that a company engaged in the production and gathering of natural gas and also in the subsequent transportation and sale in interstate commerce for resale for ultimate public consumption was a natural gas company in the statutory sense and that the Commission would not segregate the producing or gathering activities of such a company for the purpose of relieving it from the obligation of making reports to the Commission with respect to those activities.

"We express no opinion as to the validity of the jurisdictional tests employed by the Commission in these cases."

CONCLUSION

For the foregoing reasons Phillips Petroleum Company prays that this petition for a writ of certiorari be granted.

Respectfully submitted,

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APPENDIX

Pertinent Provisions of Natural Gas Act, 52 Stat. 821, as Amended, 15 U.S.C. 717 et Seq.

Section 1. (a) As disclosed in reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.

(b) The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas. [52 Stat. 821 (1938); 15 U.S.C. § 717 (1946)]

Sec. 2. When used in this act, unless the context otherwise requires—

* * *

(6) "Natural-gas company" means a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale.

* * *

Sec. 7. * * *

(c)[1] No natural-gas company or person which will be a natural-gas company upon completion of any proposed construction or extension shall engage in the transportation or sale of natural gas, subject to the jurisdiction of the Commission, or undertake the construction or extension of any facilities therefor, or acquire or operate any such facilities or extensions thereof, unless there is in force with respect to such natural-gas company a certificate of public convenience and necessity issued by the Commission au-

[1] Subsection 7 (c) was amended February 7, 1942 by Public Law No. 444, 77th Congress, Chapter 49, 2d Session [H.R. 5249], 56 Stat. 83.

thorizing such acts or operations: *Provided, however,* That if any such natural-gas company or predecessor in interest was bona fide engaged in transportation or sale of natural gas, subject to the jurisdiction of the Commission, on the effective date of this amendatory Act, over the route or routes or within the area for which application is made and has so operated since that time, the Commission shall issue such certificate without requiring further proof that public convenience and necessity will be served by such operation, and without further proceedings, if application for such certificate is made to the Commission within ninety days after the effective date of this amendatory Act. Pending the determination of any such application, the continuance of such operation shall be lawful.

In all other cases the Commission shall set the matter for hearing and shall give such reasonable notice of the hearing thereon to all interested persons as in its judgment may be necessary under rules and regulations to be prescribed by the Commission; and the application shall be decided in accordance with the procedure provided in subsection (e) of this section and such certificate shall be issued or denied accordingly: *Provided, however,* That the Commission may issue a temporary certificate in cases of emergency, to assure maintenance of adequate service or to serve particular customers, without notice of hearing, pending the determination of an application for a certificate, and may by regulation exempt from the requirements of this section temporary acts or operations for which the issuance of a certificate will not be required in the public interest. [52 Stat. 825 (1938), as amended, 56 Stat. 83 (1942); 15 U.S.C. § 717f (c) (1946)].[2]

* * *

[2] As originally enacted June 21, 1938 by Public Law No. 688, 75th Congress, Chapter 556, 3d Session [H.R. 6586], 52 Stat. 825, Section 7 (c) read as follows:

"(c) No natural-gas company shall undertake the construction or extension of any facilities for the transportation of natural gas to a market in which natural gas is already being served by another natural-gas company, or acquire or operate any such facilities or extensions thereof, or engage in transportation by means of any new or additional facilities, or sell natural gas in any such market, unless and until there shall first have been obtained from the Commission a certificate that the present or future public convenience

SEC. 19. • • •

(b) Any party to a proceeding under this act aggrieved by an order issued by the Commission in such proceeding may obtain a review of such order in the circuit court of appeals of the United States for any circuit wherein the natural-gas company to which the order relates is located or has its principal place of business, or in the United States Court of Appeals for the District of Columbia, by filing in such court, within sixty days after the order of the Commission upon the application for rehearing, a written petition praying that the order of the Commission be modified or set aside in whole or in part. A copy of such petition shall forthwith be served upon any member of the Commission and thereupon the Commission shall certify and file with the court a transcript of the record upon which the order complained of was entered. Upon the filing of such transcript such court shall have exclusive jurisdiction to affirm, modify, or set aside such order in whole or in part. No objection to the order of the Commission shall be considered by the court unless such objection shall have been urged before the Commission in the application for rehearing unless there is reasonable ground for failure so to do. The finding of the Commission as to the facts, if supported by substantial evidence, shall be conclusive. If any party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the

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and necessity require or will require such new construction or operation of any such facilities or extensions thereof: *Provided, however,* That a natural-gas company already serving a market may enlarge or extend its facilities for the purpose of supplying increased market demands in the territory in which it operates. Whenever any natural-gas company shall make application for a certificate of convenience and necessity under the provisions of this subsection, the Commission shall set the matter for hearing and shall give such reasonable notice of the hearing thereon to all interested persons as in its judgment may be necessary under rules and regulations to be prescribed by the Commission. In passing on applications for certificates of convenience and necessity, the Commission shall give due consideration to the applicant's ability to render and maintain adequate service at rates lower than those prevailing in the territory to be served, it being the intention of Congress, that natural gas shall be sold in interstate commerce for resale for ultimate public consumption for domestic, commercial, industrial, or any other use at the lowest possible reasonable rate consistent with the maintenance of adequate service in the public interest." (52 Stat. 825 (1938))

court that such additional evidence is material and that there were reasonable grounds for failure to adduce such evidence in the proceedings before the Commission, the court may order such additional evidence to be taken before the Commission and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The Commission may modify its findings as to the facts by reason of the additional evidence so taken, and it shall file with the court such modified or new findings, which if supported by substantial evidence, shall be conclusive, and its recommendation, if any, for the modification or setting aside of the original order. The judgment and decree of the court, affirming, modifying, or setting aside, in whole or in part, any such order of the Commission, shall be final, subject to review by the Supreme Court of the United States upon certiorari or certification as provided in sections 239 and 240 of the Judicial Code, as amended (U.S.C., title 28, secs. 346 and 347).

* * *

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HAROLD B. WILLEY,

No. 280

Supreme Court of the United States

OCTOBER TERM, 1953

PHILLIPS PETROLEUM COMPANY, *Petitioner*,

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, CITY OF DETROIT, MICHIGAN, CITY OF KANSAS CITY, MISSOURI, CITY OF MILWAUKEE, a municipal corporation, COUNTY OF WAYNE, MICHIGAN, and THE FEDERAL POWER COMMISSION, *Respondents*

BRIEF FOR PETITIONER PHILLIPS PETROLEUM COMPANY

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Supreme Court of the United States

OCTOBER TERM, 1953

No. 280

PHILLIPS PETROLEUM COMPANY, *Petitioner,*

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, CITY OF DETROIT, MICHIGAN, CITY OF KANSAS CITY, MISSOURI, CITY OF MILWAUKEE, a municipal corporation, COUNTY OF WAYNE, MICHIGAN, and THE FEDERAL POWER COMMISSION, *Respondents*

BRIEF FOR PETITIONER PHILLIPS PETROLEUM COMPANY

OPINIONS BELOW

The opinion of the Court of Appeals for the District of Columbia Circuit (R. 1842-1856) is reported at 205 F. 2d 706. The opinion, findings and order of the Federal Power Commission (R. 1682-1753) are reported at 10 F.P.C. 246.

JURISDICTION

The judgment of the Court of Appeals was entered May 22, 1953 (R. 1858). The petition for a writ of certiorari was filed on August 20, 1953 and denied by this Court on November 30, 1953. A petition for rehearing was filed on December 14, 1953. On January 18, 1954, this Court granted the petition for rehearing, vacated the order denying certiorari, and granted the petition for certiorari.

The jurisdiction of this Court rests upon 15 U.S.C. Section 717r(b) and 28 U.S.C. Section 1254(1).

QUESTION PRESENTED

Petitioner, Phillips Petroleum Company, produces natural gas and gathers this gas, together with gas it purchases from other producers, by networks of pipe lines located in the producing field. The gas moves from the wells through these pipe lines to a plant or plants, located in the field, where gas from different lines serving different parts of the field is commingled; as the gas moves through the plant liquid hydrocarbons and impurities are removed. A part of the residue gas is used or sold locally, and the remainder is delivered at outlets of the plants to pipe line companies which transport it interstate and resell the gas for use in consumer markets. All of these activities are carried on by Phillips in the producing fields; Phillips does not own or operate an interstate transmission line, *i.e.*, a pipe line transporting gas interstate between the producing fields and markets, and it is not affiliated with any company that owns or operates such a line.

The question presented is whether the Federal Power Commission was correct in determining that Phillips' sales to the interstate pipe line companies are not subject to regulation under the Natural Gas Act.

STATUTE INVOLVED

The pertinent provisions of the Natural Gas Act (Act of June 21, 1938, ch. 556, 52 Stat. 821, as amended, 15 U.S.C. 717 *et seq.*) are set forth in Appendix A.

STATEMENT

I. The Proceedings Before the Federal Power Commission

A. The Parties and Hearings Before the Commission

By an order dated October 28, 1948 the Federal Power Commission instituted an investigation to determine (1) whether Phillips was a natural gas company within the meaning of the Natural Gas Act and if so, (2) whether any of its rates were unjust or unreasonable (R. 1647-1660). On April 17, 1951, the Commission limited the investigation to the first question and postponed consideration of the second until a later date (R. 1676).

The State of Wisconsin and its Public Service Commission, the City of Kansas City, Missouri, the City of Milwaukee, the City of Detroit, Michigan, the County of Wayne, Michigan, and the Michigan Public Service Commission intervened in the proceeding, contending that Phillips was a natural gas company and that its sales should be regulated by the Federal Power Commission (R. 5-6, 1687).

The producing States of New Mexico, Oklahoma, and Texas (petitioners in No. 281) intervened, contending that Phillips' sales were not subject to regulation under the Natural Gas Act because regulation of those sales by the Federal Power Commission would interfere with the exercise of the regulatory functions of the states (R. 80-83, 87-93, 100-103). The three States participated in the hearings before the Commission and presented extensive evidence in support of their position, including testimony from members of their regulatory agencies. The producing States of Arkansas, Kansas, Louisiana and Mississippi also intervened in opposition to federal regulation of Phillips' sales (R. 6, 1686-1687), but evidence offered by these States was excluded by the examiner on the ground

that no gas produced within these States was involved in the proceeding.[1]

Hearings were held before an examiner from April 3, 1951, to May 23, 1951. The record made before the examiner consisted of nearly 11,000 pages, including approximately 5,800 pages of testimony and nearly 4,000 pages of exhibits.

B. The Facts

On the record presented to the Commission, the facts relating to Phillips' operations may be summarized as follows:

Phillips is an integrated oil company, which is also engaged in the production, gathering and sale of natural gas (Ex. 29; R. 862-871, 1687-1689). All of Phillips' gas operations are carried on in the producing fields (Ex. 82; R. 1215). Phillips is an "independent" producer and gatherer of gas, that is to say, it does not own or operate an interstate transmission system by which gas is moved from the fields to consumer markets, and it is not affiliated with any company that owns such a system.[2]

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[1] The Independent Natural Gas Association of America, Old Ocean Royalty Owners Association, Texas County Land and Royalty Owners Association, and Texas Independent Producers and Royalty Owners Association also intervened, and took the position that under the Natural Gas Act sales such as those made by Phillips are not subject to federal regulation (R. 6, 1687).

[2] The word "independent" has long been used in the industry and by commentators to denote the difference between producers and gatherers who do nothing but produce, gather, process and sell in the gas fields, on the one hand, and interstate transmission companies which produce, gather and transport by pipe line to consumer markets, on the other. Final Report of the Federal Trade Commission to the Senate of the United States, pursuant to Senate Resolution No. 83, 70th Cong., 1st Sess., Part 84-A (Senate Document 92, 70th Cong., 1st Sess.), p. 479 (1935); Natural Gas Investigation, Federal Power Commission, Docket No. G-580, Report of Commissioners Smith and Wimberly, (United States Government Printing Office 1948), pp. 156, 164, 171, 172, 173-174; Berger and Krash, Status of Independent Producers under the Natural Gas Act, 30 Tex. L. Rev., p. 29, n. 1 (1951).

As of December 31, 1949 Phillips owned or controlled by contract 15.22 trillion cubic feet of proven gas reserves (R. 1689). It also owns gathering lines and processing plants, located in the oil and gas fields, which are used by Phillips both in the conduct of its gas business and in various aspects of its petroleum business (R. 1689).[3] In 1949 Phillips sold approximately 400,000,000 m.c.f. of natural gas and in 1950 approximately 500,000,000 m.c.f. (R. 1689). Between 50% and 60% of the natural gas sold by Phillips is sold to interstate pipe line companies which transport the gas from the producing fields to consumer markets (R. 1689). Phillips' gas operations, although extensive, are over-shadowed by its operations in the petroleum and chemical industries; in 1949 Phillips' gas operations accounted for only 4.2% of its total gross operating revenues (Ex. 29; R. 852).

The bulk of the evidence taken by the examiner related to Phillips' production, gathering and sales of natural gas in the producing fields of Oklahoma, Texas and New Mexico. The sales involved are made to five interstate transmission companies: Michigan-Wisconsin Pipe Line Company, Panhandle Eastern Pipe Line Company, Independent Natural Gas Company, El Paso Natural Gas Company, and Cities Service Gas Company (R. 1690-1711). Each of these companies owns and operates an interstate pipe line and is admittedly a natural gas company within the meaning of the Natural Gas Act (R. 1827-1834). The gas involved in these transactions includes gas that is produced by Phillips and gas that it buys from other producers. All of the gas is gathered by Phillips.

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[3] Natural gas liquids as well as natural gas prepared for delivery to pipe line companies for transportation to consumer markets are products of every processing plant operated by Phillips which is involved in this case (Exs. 169-177; R. 630, 1329, 1359, 1389, 1421, 1455, 1513, 1573, 1609, 1639).

Gas is delivered by Phillips to these five companies from separate gathering systems. Altogether there are nine gathering systems, including twelve different processing plants, involved in the transactions between Phillips and the five companies (R. 1691-1710).[4] Five of the gathering systems are located entirely in Texas, one entirely in Oklahoma and one entirely in New Mexico (Exs. 14B-15A, 48-51; R. 816-819, 896-903, 1697, 1699, 1703, 1705, 1710); in the case of the other two gathering systems the processing plants are located in Texas but serve the Hugoton Field that extends into both Texas and Oklahoma; hence the gathering lines for those plants lie in both states (Exs. 12A-13A; R. 810-813, 1691, 1695).

The various gathering systems differ in location, size and physical characteristics, but they all have certain features in common: In each case the gathering system includes a network of converging pipe lines and a processing plant or plants (Exs. 12A-15A, 48-51, 86, 91, 103, 104, 111, 116; R. 810-819, 896-903, 1215, 1224, 1239, 1244). In each case the gas, both that produced by Phillips and that which Phillips buys from others and gathers, moves from the wells through the gathering lines to a processing plant located at some central or convenient point in the field (R.

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[4] The processing plants are: Sherman, Hansford, Dumas, Sneed, Gray, Eunice, Goldsmith, Crane, Fullerton, Edmond, Hunton and Trindle. The first eight of these plants are owned and operated by Phillips. The Fullerton plant is owned by Phillips and the Fullerton Oil Company, an independent producer and gatherer. The Edmond plant is owned by Phillips and Continental Oil Company, another independent producer and gatherer of natural gas, and is operated by Phillips (Ex. 52; R. 287, 1030). The Hunton plant is owned by Phillips and five other independent producers and gatherers of natural gas (R. 1710). The Trindle plant is owned and operated by the West Edmond Hunton Lime Unit, a unitized operation set up pursuant to Oklahoma law (Ex. 52; R. 287, 289, 905-966).

The Sneed and Dumas plants are part of a single gathering system; the Edmond, Hunton and Trindle plants are similarly parts of a single gathering system.

1743).[5] The lines vary in size, in many instances being of small diameter (3 to 6 inches). As the lines approach the processing plants and gas from additional wells enters the lines they tend to increase in size; the lines leading into the plants range from 12 to 26 inches in diameter. More than 75% of the total mileage of pipe involved consists of pipe of a diameter of 12 inches or less (Exs. 12A-15A, 48-51, 86, 91, 103, 104, 111, 116; R. 810-819, 896-903, 1215, 1224, 1239, 1244). More than one line serves each of the processing plants involved, and the final commingling of gas from the different lines occurs in each case in the processing plant (Exs. 45A-45-H-I; R. 872-895, 1743).[6]

The processing which occurs within the plants consists in the extraction of liquid hydrocarbons and in the removal of hydrogen sulphide or other impurities (R. 1742-1743).

Approximately half of the gas gathered by Phillips is casinghead gas, that is, gas produced from oil wells in conjunction with oil (Exs. 169-177; R. 282-284, 291, 1298-1639). The oil cannot be produced without the gas which

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[5] The distances that the gas moves through the gathering lines are relatively short. Variations in the length of the movements depend upon the distance of the wells from the processing plants, ranging from less than a quarter of a mile to a maximum of 45 miles. All movements are within the confines of the field in which the gas is produced (Exs. 12A-15A, 48-51, 86, 91, 103, 104, 111, 116; R. 810-819, 896-903, 1215, 1224, 1239, 1244).

[6] For example, the six lines which gather gas at the Hansford plant come together from the north and south, east and west and northeast and northwest (Ex. 13A; R. 813). Similarly, six lines, from the north, west and south, carry gas into the Goldsmith plant (Ex. 50; R. 901). See plats attached as Appendices B and C.

In some of the gathering systems the pattern of movement of the gas will vary substantially from time to time. The gas at different points in the system may flow in different directions at different times because of the location of the plants receiving gas from the system, the open loops within the system and the variation in the wells and lines operating or shut in from time to time (R. 142-146, 149-150).

must be gathered and prepared for market if it is not to be flared or otherwise wasted.

Much of the casinghead gas is not produced by Phillips but is purchased by it from other independent producers under contracts which provide that the price paid by Phillips shall depend in part upon the gasoline content of the gas and in part upon the price which Phillips receives from the sale of residue gas (Exs. 62, 107, 124, 181-184; R. 361-363, 1164, 1283-1284, 1640-1644).[7] The contracts also require Phillips to return residue gas to these producers for use in their operations (R. 362). Phillips, accordingly, returns a portion of the residue to the independent producers from whom the casinghead gas was purchased, retaining for its own use or sale that part of the gas not required by these independent producers for their operations. Some of the gas so retained by Phillips is used in its own operations, some is sold to others for local use, but the greater part of this residue gas is delivered to the five interstate pipe line companies (Exs. 169-177, 181-184; R. 1298-1644).

In the case of each sale the gas is delivered by Phillips to the interstate pipe line company at the outlet or exhaust of the processing plant (Exs. 99A-102, 113, 114A, 117A; R. 1217-1223, 1240, 1245, 1691-1711, 1743-1744).[8] The outlet or

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[7] The same price relationship exists with respect to the gas produced by Phillips from leased acreage in the Hugoton Field. The royalty agreements provide that the royalty paid by Phillips shall depend in part upon the price which Phillips receives from the sale of the gas (Ex. 109B; R. 1224-1229).

[8] In two instances, the sales to Panhandle at the Sneed plant and those to El Paso at the Goldsmith plant, the raw gas is sold and delivered to the interstate transmission company at the plant line, subject to Phillips' right to extract and retain the liquid hydrocarbons in the gas. In these instances, the gas is compressed by the interstate transmission company, which retains title and redelivers the gas to Phillips for the extraction process, and is then in turn redelivered to the transmission company (Exs. 45B, 45G-1; R. 129, 206-209, 213-214, 253-255, 875, 891). In the case of the sale to Panhandle the gas delivered by Phillips is commingled by Panhandle with other gas before being returned for processing (Ex. 14B; R. 817).

exhaust is a pipe that carries the gas to a point within, or at the border of, the plant yard where the gas enters a pipe line owned and operated by the interstate transmission company which is purchasing the gas. The length of these plant exhausts or outlets varies from approximately 200 to 1490 feet (Ex. 192; R. 1646). In no case does Phillips perform any operation with respect to the gas beyond the plant yard. The transmission companies transport the gas in interstate commerce from the producing fields and resell it either at city gates or at other points for ultimate consumption in consumer markets located in Arizona, California, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio and Wisconsin (R. 1827-1834).

The sales to Cities Service differ from those to the other four transmission companies in that the gas involved is not all owned by Phillips but is produced from an oil field unitized by order of the Oklahoma Corporation Commission (Ex. 52; R. 905-1051). Each unit owner has an undivided interest in the residue gas. As a unit owner Phillips has an undivided 19.6% interest in the unit production of oil and gas (Ex. 52; R. 281-282, 1048). There are approximately 52 other independent producers who have interests in the unit (R. 910).[9] Sales of the gas are made for all of the unit owners from the Edmond, Hunton and Trindle (North) plants (R. 287). Phillips as agent for all the unit owners, collects from Cities Service the proceeds of the sales at the three plants and disburses the proceeds to the various unit owners in proportion to the gas sold (R. 281-282, 289, 291).

Plats of Phillips' Goldsmith and Hansford gathering systems, two of the nine systems involved in this case, marked Appendices B and C respectively, are at-

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[9] The royalty interests under the leases in this unit are owned by approximately 2500 royalty owners; the royalty payments made to these owners depend in part upon the price received by the unit for the gas.

tached hereto.[10] These plats illustrate many of the aspects of the gathering systems that have been referred to in the preceding description. The Goldsmith plat, for example, shows Phillips' gathering lines by which gas is collected in the Goldsmith plant, residue lines through which Phillips returns gas to producers from whom it purchases casinghead gas, the interstate transmission line of El Paso Natural Gas Company, into which Phillips delivers gas at the Goldsmith plant (one of the deliveries involved in this case), and another line, owned by Sid Richardson, through which gas moves from the Goldsmith plant to a local plant, also owned by Richardson, where the gas is used in the manufacture of carbon black.[11]

C. The Opinion and Findings of the Commission

At the conclusion of the hearings before the examiner, the record was certified to the Commission which heard argument on July 9 and 10, 1951 (R. 1686).

In an opinion issued on August 22, 1951, the Commission held "that Congress, by the exemption of producing and gathering, intended to deny this Commission jurisdiction over the business of producing and gathering" (R. 1741).

On the basis of the whole record, including the facts that have been summarized above, the Commission found that Phillips' movement, processing and sales of natural gas are a part of Phillips' gathering business, or at least exempt under Section 1(b) of the statute as an incident of, or activity related, to its gathering business (R. 1742-1744, 1752-1753). The Commission also found that Phillips' sales were made during the course of production and gathering

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[10] The Goldsmith plat is based on Exhibit 91 (R. 1215) and Exhibit 50 (R. 901). The Hansford plat is based on Exhibit 13A (R. 813).

[11] The Hansford plat shows a gathering system (with lines that lie in both Texas and Oklahoma) that is used to collect dry gas; hence there are no lines for the return of residue gas similar to those shown on the Goldsmith plat.

and that regulation of those sales by the Federal Power Commission would be inconsistent with or would substantially interfere with the state regulation by New Mexico, Oklahoma and Texas (R. 1745-1747, 1753-1755).

On the basis of these findings the Commission held that Phillips was not a natural gas company within the meaning of the statute and ordered the proceeding terminated (R. 1753). One member of the Commission concurred on the second ground alone, *i.e.*, that federal regulation would be inconsistent with or would substantially interfere with state regulation, and one member dissented (R. 1753-1822).

II. The Proceedings In The Court Below

The State of Wisconsin and its Public Service Commission, the City of Kansas City, Missouri, the City of Milwaukee, the City of Detroit, Michigan, and the County of Wayne, Michigan, brought five separate proceedings in the United States Court of Appeals for the District of Columbia Circuit, pursuant to Section 19(b) of the Natural Gas Act, to review and to set aside the Commission's order (R. 1-72). Phillips and the States of New Mexico, Oklahoma and Texas intervened in each of these proceedings in support of the Commission's order (R. 72-117). The Commission appeared in each proceeding in defense of its order. The five petitions were consolidated for hearing by an order of the Court of Appeals dated February 5, 1952 (R. 1838-1839).

On May 22, 1953 the Court of Appeals in an opinion written by Judge Edgerton and concurred in by Judge Prettyman, with Judge Clark dissenting, set aside the Commission's order. The majority opinion stated that Phillips' sales were made "after the time and beyond the place at which production and gathering are complete and after processing has intervened" (R. 1842) and that the words "production or gathering" in Section 1(b) of the Act do not exempt "sales made after production and gathering have been completed" (R. 1849). The majority opinion also

stated that when Congress passed the statute it intended to subject to federal regulation all sales that could not be regulated by the states; that Phillips' sales are sales in interstate commerce of natural gas for resale and "it follows that no state can regulate these sales"; that Phillips' sales "are made after the gas has been gathered into trunk lines" and for that reason are not subject to state regulatory authority (R. 1847). The majority opinion does not make clear which of these several considerations it regarded as decisive. The concluding paragraph of the majority opinion reads as follows (R. 1849-1850):

> "Phillips urges that the Commission's findings are supported by substantial evidence and should therefore be sustained. But the validity or invalidity of the Commission's conclusion that Phillips is not a 'natural-gas company' does not turn upon the evaluation of testimony or upon any facts peculiar to this case. It turns upon the generic question whether the exemption of 'production or gathering' in § 1(b) of the Natural Gas Act covers interstate sales of gas by the corporation that produced and gathered it. We think the Act and the decisions of the Supreme Court permit only one answer. We think the Commission has applied an erroneous rule of law. Phillips' sales to the pipeline companies are not within either the statutory phrase 'the production or gathering of natural gas' or the Supreme Court's paraphrase 'made during the course of production and gathering'. Therefore Phillips is a 'natural-gas company' within the meaning of the Natural Gas Act and the Commission should fix the rates at which these sales are made."

SPECIFICATION OF ERRORS TO BE URGED

The Court of Appeals erred—

(1) In reversing the order of the Federal Power Commission and in holding that Phillips is a "natural-gas company" within the meaning of the Natural Gas Act and that its sales involved in this proceeding are subject to federal regulation.

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(2) In failing to hold that Section 1(b) of the Natural Gas Act excludes from federal regulation the whole of the business of production and gathering, including sales in interstate commerce for resale made as a part of that business.

(3) In rejecting findings made by the Federal Power Commission that all of Phillips' operations, including its movement, processing and sales of gas, are part of production and gathering.

(4) In concluding that Phillips' sales are made after the time and beyond the place at which production and gathering are complete.

(5) In concluding that in the exercise of their conservation powers the states cannot regulate Phillips' sales that are involved in this proceeding.

(6) In failing to give effect to findings by the Federal Power Commission that its regulation of Phillips' sales would be inconsistent with state regulatory programs.

SUMMARY OF ARGUMENT

I

There are three different businesses or economic functions involved in the operation of supplying natural gas to consumers. The first is the production and gathering of natural gas in the field. The second is the interstate transmission of the gas by pipe line from the producing fields to consumer markets. The third is the local distribution of the gas to the consumer markets. Phillips and other independent producers and gatherers are engaged solely in the first of these businesses. Their activities, which are confined to the producing fields, consist of producing gas, collecting it at some central point in the field and there preparing the gas for use or sale by removing impurities and liquid hydrocarbons. This is a business of predominantly local character which must be carried on within the

limits of detailed regulations imposed by the states in the exercise of their constitutional power to protect and conserve a wasting natural resource.

The sales of Phillips to the interstate transmission companies that are involved in this case are sales made by Phillips as a part of its business of producing and gathering. The Natural Gas Act does not authorize federal regulation of such sales.

In 1935 the Federal Trade Commission, following an extensive investigation made at the request of Congress, submitted a 600-page report on the activities of public utility corporations and holding company systems in the gas industry. The report was directed to the necessity for regulation of the practices of the interstate transmission companies which were engaged in the middle segment of the industry, that is, in the transmission of gas by pipe line from the producing fields to consumer markets. The report pictured those companies as occupying a dominant and monopolistic position in the industry.

As Section 1(a) of the Natural Gas Act shows, the statute was enacted in response to the disclosures made in this report. It was designed to regulate solely the activities of these transmission companies which transport gas from the producing fields to consumer markets. It was in no way intended to apply to the business of independent producers or gatherers or to regulate the prices at which they sell gas in the field to the transmission companies.

The intention to confine the regulation to the business of the interstate transmission companies and to exclude the business of producing and gathering from regulation is apparent on the face of the statute. Section 1(a) of the Act describes the business that is to be regulated and does so in terms that are applicable to the interstate transmission business and not to the business of producing and gathering. The concluding clause of Section 1(b) expressly excludes "production or gathering" from regulation and

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those words comprehend the whole of the business of independent producers and gatherers, including sales for resale in interstate commerce. The statutory purpose to regulate only the business of the interstate transmission companies is evidenced by the regulatory provisions of the statute. Those provisions authorize regulation of the kind historically applied to transportation services and similar public utilities. That regulation is appropriate to the business of the interstate transmission companies but would be unsuitable and inappropriate to regulation of the business of producing and gathering.

The legislative history, beginning with the Federal Trade Commission Report and ending with the debates in both Houses of Congress, where the bill was described as noncontroversial, sharply delineates the coverage of the Act. In the opening hearings on the legislation it was firmly established that federal regulation would not apply to the gathering business or prices paid in the field. Throughout the Congressional proceedings, emphasis was placed on the need to exercise control over the interstate transmission companies. A review of the entire legislative history demonstrates that Congress intended to regulate the activities of those companies, particularly their sales at the city gates, which could not be reached by the states, but that it did not intend to regulate the business of producing and gathering.

In enforcing the statute the Federal Power Commission has consistently given effect to this statutory purpose. Beginning with *Columbian Fuel Corp.*, 2 F. P. C. 200, decided in 1940, two years after the passage of the Act, the Commission has disclaimed authority to regulate the field prices of independent producers and gatherers. In the instant proceeding the Commission, after an extensive review of the history and provisions of the Act, reaffirmed this consistent interpretation of the Act.

The decisions of this Court interpreting and applying the provisions of the Natural Gas Act also reflect the stat-

utory scheme disclosed by the legislative history. Those decisions recognize that the Act was directed at the practices of the interstate transmission companies and that its provisions do not permit any direct regulation of production or gathering because that activity relates to problems that are primarily of local concern. *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U.S. 591; *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U.S. 581; *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U.S. 498. In *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U.S. 682, this Court stated that the statute did not permit federal regulation of sales for resale in interstate commerce even when made by an interstate transmission company if regulation of those sales would interfere with state regulatory authority. Any regulation of sales made by an independent producer or gatherer would, because of the nature of his business, necessarily and inevitably conflict with state regulatory authority. It follows under the *Interstate* case that such sales are not subject to federal regulation.

II

The determination by the Federal Power Commission that Phillips' sales are not subject to regulation under the Natural Gas Act is correct and should be upheld. The Commission correctly interpreted the Natural Gas Act as excluding from federal regulation the whole of the business of production and gathering, including sales for resale in interstate commerce made as a part of that business. This interpretation was required by the words of the Act and by its legislative history. The Commission upon a careful appraisal of all relevant aspects of Phillips' activities found that they were confined to the business of production and gathering and that its sales were made as a part of that business. This finding was fully supported by the evidence. The Court of Appeals erred in rejecting the interpretation

of the statute adopted by the Federal Power Commission and in rejecting the findings of the Commission.

III

On the basis of a record including extensive testimony by the regulatory officials of the producing states, the Commission found that federal regulation of sales such as those made by Phillips would be inconsistent with and conflict with state regulatory functions. This finding was fully supported by the evidence. It represents the considered and expert judgment of the regulatory agency which would enforce federal regulation. The finding establishes that federal regulation of field sales by independent producers and gatherers would inevitably conflict with state conservation measures and thereby nullify the intent of Congress. It therefore supplements and confirms the Commission's conclusion that the Natural Gas Act does not provide for federal regulation of such sales.

IV

The extension of federal regulatory authority to the activities of independent producers and gatherers cannot be justified on the ground that it is necessary to protect consumers against excessive prices. There was no need for such regulation in 1938 when the Natural Gas Act was passed and there is no need for it today.

When Congress enacted the Natural Gas Act, it confined the regulation to the activities of interstate transmission companies and explicitly excluded the business of production and gathering from the scope of the statute. The argument that it is now necessary in the interests of consumers to extend the statute to the business of production and gathering raises grave and complex questions of legislative policy that were not considered or passed upon by Congress.

ARGUMENT

I

THE NATURAL GAS ACT EXCLUDES FROM FEDERAL REGULATION THE WHOLE OF THE BUSINESS OF PRODUCTION AND GATHERING, INCLUDING SALES FOR RESALE IN INTERSTATE COMMERCE MADE AS A PART OF THAT BUSINESS

This is the first time that this Court has been called upon to consider the application of the Natural Gas Act to field sales of natural gas made by a producer and gatherer who does not own or operate an interstate transmission line and whose only activities in the gas industry are the producing, gathering, processing and sale of gas in the producing fields. The ultimate question presented in this case is whether such a producer and gatherer becomes a "natural-gas company", within the meaning of the Natural Gas Act, and subject to federal regulation if, as a part of his business, he sells gas in the producing field to an interstate transmission line for resale.

We submit that the Natural Gas Act does not authorize federal regulation of the business or sales of such an independent producer or gatherer of natural gas. On the contrary it was the intent of Congress to exclude from federal regulation the whole of the business of independent producers and gatherers, including sales for resale in interstate commerce made as a part of that business. That intention is disclosed on the face of the statute by the words Congress used to define the statute's scope, and is confirmed by the legislative history of the statute, by its consistent administrative interpretation, and by the decisions of this Court interpreting and applying its provisions.

A. THE NATURAL GAS ACT ON ITS FACE REGULATES ONLY COMPANIES PERFORMING THE INTERSTATE SERVICE OF TRANSPORTING GAS FROM THE PRODUCING FIELDS TO CONSUMER MARKETS AND EXCLUDES FROM FEDERAL REGULATION THE WHOLE OF THE BUSINESS OF PRODUCING AND GATHERING

The words of the Natural Gas Act must be read in the light of the fact that there are three different operations or economic functions involved in the supplying of gas to ultimate consumers. They are (1) the production and gathering of gas, (2) the interstate transmission of gas by pipe line to consuming markets, and (3) the local distribution of gas for household, commercial and industrial uses.[12] Each of these functions is a different business with special economic, physical and competitive characteristics and problems. Although there are a number of integrated transmission companies that engage in production and gathering as well as transmission, the different phases of the industry are in large part carried on by separate groups of business entities with different characteristics

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[12] See Final Report of the Federal Trade Commission to the Senate of the United States pursuant to S. Res. No. 83, 70th Cong., 1st Sess., Part 84-A (S. Doc. 92, 70th Cong., 1st Sess.), pp. 111, 601, 602 (1935). And see Federal Price Control of Natural Gas Sold to Interstate Pipelines, 59 Yale L. J. 1468, 1469-1470 (1950):

"There are three steps in supplying natural gas to its 14 million users. In the first step, production and gathering, gas is drawn from the earth, often along with oil. It is gathered in by a network of field pipes and processed to remove both nuisances and valuable by-products. • • • All told, about a third of the total marketed production is consumed right in the field. The other two-thirds of the marketed gas moves into pipelines for the second big operation of the industry, long-distance transmission to consumers. About half this volume is consumed within the producing states themselves. Part of the total amount of pipeline gas—whether consumed inside or outside the producing states—is sold directly to individual industrial plants. The rest is passed on to distributing companies for the third operation of the gas business, resale through local mains to household, commercial and industrial users."

that reflect the conditions in the particular phase of the industry in which they are engaged.[13]

When Congress passed the Natural Gas Act it was aware of this tripartite division of the industry.[13a] Congress intended to regulate the middle segment of the industry, that is to say, the business of transmitting gas by pipe line from the producing fields to the consuming markets, including sales for resale made as a part of that business. It intended to exclude from federal regulation the initial function of producing and gathering gas for delivery to the interstate pipe lines—a business thought to be predominantly a matter of local concern to the producing states. It also intended to exclude the final function, the business of distribution to consumers—a business thought to be predominantly a matter of local concern to the consuming states.

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[13] In 1947, according to statistics compiled by the Federal Power Commission, there were 115 interstate transmission companies subject to regulation under the statute. Statistics of Natural Gas Companies, Federal Power Commission, 1947 (United States Government Printing Office), p. v. In the same year there were 2300 independent producers or gatherers who sold natural gas directly to interstate transmission companies (R. 728-731). It has been estimated that there are several thousand additional independent producers or gatherers who do not sell directly to interstate transmission companies. Natural Gas Investigation, Federal Power Commission, Docket No. G-580, Report of Commissioners Smith and Wimberly (United States Government Printing Office 1948), p. 194. Much of the gas sold by these other independent producers is ultimately delivered to interstate transmission companies for interstate transportation to consumer markets.

[13a] "So, broadly speaking, we have in natural gas a situation which no matter how fully and properly integrated will present at both ends problems which are either entirely of local concern, or which are of both local and general public concern, and in between a field of interstate transportation where only through the exercise of Federal jurisdiction can proper solution be obtained." Final Report of the Federal Trade Commission to the Senate pursuant to S. Res. No. 83, 70th Cong., 1st Sess., Part 84-A (S. Doc. No. 92, 70th Cong., 1st Sess.), p. 602 (1935); see also pp. 111, 601.

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The Natural Gas Act begins (Section 1(a)) with a declaration of policy:

> "As disclosed in reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest."

In this declaration of policy the words "the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest" designate the business that Congress intended to regulate. These words describe the business of the interstate transmission lines. They do not describe the business of producing or gathering gas for sale to transmission lines just as they do not describe the business of distributing gas in local markets to ultimate consumers.

Following this declaration of policy, Section 1(b) specifies that the Act shall apply

> "to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale,"

and then explicitly states that the Act shall not apply

> "to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas."

This concluding clause of Section 1(b) excludes from federal regulation both the business of local distribution

and the business of producing and gathering. The clause thus confirms the intent of Congress to regulate only the business of interstate transmission companies. It is that business, as we have seen, that is described by the words used in the declaration of policy. The words "production or gathering" in Section 1(b) describe an entirely different business and should be read as comprehending the whole of the business they describe, including sales in interstate commerce for resale made as a part of that business, and as precluding federal regulation of that business or of such sales. This is the meaning that the Federal Power Commission has always given to the words and which it reaffirmed in this case after a careful review of the legislative history and the relevant decisions of this Court (R. 1741). This reading of the words is consistent both with their plain and ordinary meaning and with the significance that they usually bear in the oil and gas industry.[14]

The subsequent sections of the statute defining the regulatory powers conferred upon the Federal Power Commission provide additional support for this interpretation of the words. The description of these powers shows that they are designed to apply to the business of the interstate transmission companies and not to the business of producing and gathering.

For example, the rate regulation prescribed in Sections 4, 5 and 6 of the Act provides for the traditional form of

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[14] In this case there was substantial evidence before the Commission that in the ordinary usage of the oil and gas industry the words "production or gathering" are used to describe all of the various activities performed by an independent producer and gatherer. See pp. 68-69, *infra*.

"The recognized practices of an industry give life to the dead words of a statute dealing with it." United States v. Maher, 307 U.S. 148, 155. See also Order of Railway Conductors v. Swan, 329 U.S. 520, 525; O'Hara v. Luckenbach S.S. Co., 269 U.S. 364, 370.

public utility regulation—a kind of regulation that historically has been applied to common carriers and to electric, gas and similar public utilities. These sections cover in the classic language of utility legislation the matter of rates and charges.[15] The words used in these sections set standards for rate-making which are appropriate to the transportation services performed by the interstate transmission companies but which would be inappropriate and unsuitable to the economic problems and special characteristics of the business of producing and gathering natural gas. They are words which would normally and naturally be applied to regulation of the cost of transportation or other services; they are inconsistent with the idea of regulating an extractive or mining industry such as the business of producing and gathering natural gas.[16]

The conclusion drawn from the rate-making powers conferred upon the Commission is strengthened by an examination of the provisions of the Act authorizing the Commission to deal with facilities and service. Those provisions, found in Section 7 of the statute, are expressed in words that are applicable to the business of the interstate transmission companies but not applicable to the

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[15] Section 4(a) requires that all rates be "just"; Section 4(b) prohibits undue preferences or unreasonable differences; Section 5 authorizes the Commission to fix rates; and Section 6 authorizes the valuation of property for rate-making purposes. Other provisions incorporate regulatory powers usual in the case of utilities, as for example the power to control depreciation rates, to prescribe systems of accounts, reports, etc.

[16] It is significant that in those instances in which the statute touches any aspect of the gas industry that relates to production and gathering it confers no regulatory authority on the Commission but limits its power to the obtaining of information. Thus Section 11, the only provision of the statute that deals with conservation, explicitly limits the Commission's authority to reporting on action taken by the states in the form of interstate compacts.

business of producing and gathering.[17] These provisions cannot be construed as giving the Commission any authority whatsoever over the facilities used or the service performed in the course of production and gathering. This Court rejected such a suggestion in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U.S. 498. This limitation on the Commission's authority is of substantial significance in the present discussion. The sale of gas by an independent producer or gatherer involves more than a price or rate. It also involves such matters as the availability of facilities and continuity of service. If Congress had intended to regulate the business of independent producers or gatherers it would hardly have authorized regulation of one aspect of that business, *i.e.*, the prices charged in sales, and at the same time denied authority to regulate an equally important aspect of sales, *i.e.*, facilities and service. The fact that the latter power is not conferred is persuasive evidence that the statute was not intended to authorize regulation of any aspect of the business of independent producers or gatherers.

So far in this discussion we have seen that the words "production or gathering" in Section 1(b), read in context

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[17] Thus Section 7(a) gives the Commission authority to direct a natural-gas company to extend or improve "its transportation facilities" and to direct the establishment of a "physical connection" of the "transportation facilities" of a natural-gas company with the facilities of "any person or municipality engaged or legally authorized to engage in the local distribution of natural and artificial gas to the public." Section 7(b) requires Commission consent for the abandonment of "facilities subject to the jurisdiction of the Commission, or any service rendered by means of such facilities". Section 7(c), as originally enacted provided that no natural-gas company could, without obtaining a certificate of convenience and necessity, undertake "the construction or extension of any facilities for the transportation of natural gas to a market in which natural gas is already being served by another natural-gas company". In 1942 subsection (c) was amended so as to provide generally that no natural-gas company shall engage in the transportation or sale of gas subject to the jurisdiction of the Commission or undertake the construction or extension of any facilities therefor without a certificate of convenience and necessity.

and against the other provisions of the statute, mean the business of production and gathering. Furthermore, the words comprehend the whole of that business. On the face of the statute there is no restriction, express or implied, that justifies treating the words as meaning anything less. There is nothing, for example, to support a suggestion that the words cover only the physical facilities or operations involved in the business. The words themselves do not suggest that they are so confined and their context provides additional reasons for rejecting such a limitation. Section 1(a) of the Act describes what is to be regulated in terms of a "business". It is reasonable to believe that the provisions of Section 1(b) designating the subject matter that is not to be regulated also describe a business and comprehend all aspects of the business (including sales) and not merely its physical aspects.[18]

There is likewise no merit in the suggestion that the words "production or gathering" cannot cover sales for resale in interstate commerce because Section 1(b) affirmatively subjects such sales to regulation. That part of Section 1(b) providing that the Act shall apply to sales for resale in interstate commerce cannot be read as restricting or limiting the meaning of the words "production or gathering". This becomes apparent when we consider the parallel provision in Section 1(b) relating to transportation. That provision states that the Act shall apply "to the transportation of natural gas in interstate commerce". This language cannot mean that all movement of gas in interstate commerce is subject to regulation.[19] To interpret

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[18] The sales made by an independent producer and gatherer are as much a part of his business as the physical movement of gas. *Cf.* Brown v. Maryland, 12 Wheat. 419, 446-447 (sale an "essential ingredient of importation"); American Sugar Refining Co. v. Louisiana, 179 U. S. 89, 92 (sale an "incident" of manufacture or production).

[19] *Cf.* this Court's treatment of the word "transportation" in the Act to Regulate Commerce of June 29, 1906, as applied to oil pipe lines. The Pipe Line Cases, 234 U. S. 548, 562.

the language in that way would render futile the reference to "gathering" in the concluding clause of the section. The Act by its terms does not purport to apply to intrastate movements of gas; hence, if the word "gathering" is to have any meaning at all it must cover some movements of gas in interstate commerce. The reference to transportation in interstate commerce in the first clause of Section 1(b) must, therefore, be regarded as covering the transportation activities of interstate transmission companies. By the same token the reference to sales for resale in interstate commerce in the first clause of Section 1(b) refers to sales made as a part of the interstate transmission business.

Viewed in this light, and in relation to Section 1(a), the purpose of the affirmative provisions of Section 1(b) becomes clear. Section 1(a) describes the business that is to be regulated, *i.e.*, the interstate transmission business. The function of the affirmative provisions of Section 1(b) is to describe the phases and aspects of that business that are covered by the provisions of the Act; they are not designed to limit or qualify the concluding clause of Section 1(b) which excludes the business of production or gathering from regulation.

It should be noted that in *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U.S. 683, this Court stated that even in the case of an interstate transmission company the words "production or gathering" may in appropriate circumstances deprive the Federal Power Commission of jurisdiction to regulate sales for resale in interstate commerce. This indicates that this Court finds nothing on the face of the statute to support either the suggestion that the words are limited to physical facilities and activities or the suggestion that the words can never comprehend sales for resale in interstate commerce.

Just as there is nothing on the face of the statute that justifies an assertion that the words "production or gathering" can never comprehend sales, there is nothing that permits segmenting or dividing the business of pro-

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duction and gathering on some other basis. Nothing in the statute distinguishes between some sales for resale in interstate commerce made as a part of the business and other such sales likewise made as a part of the business. There is no language, for example, that supports a distinction between sales made at the end of production, on the one hand, and sales made at the end of gathering, on the other. The use of the disjunctive in the words "production or gathering" in fact negatives any such distinction. And there is nothing that justifies a distinction between sales made immediately at the end of production and gathering and sales that are made at some other point in the conduct of the business. If such distinctions are asserted the attempt to defend them must appeal entirely to considerations outside the words of the statute because nothing in those words gives such distinctions color or substance. On the face of the statute the only reasonable interpretation to give the phrase "production or gathering" is that it means the whole of the business that it describes, including sales for resale in interstate commerce made as a part of that business.

B. THE LEGISLATIVE HISTORY OF THE NATURAL GAS ACT SHOWS THAT CONGRESS INTENDED TO REGULATE THE INTERSTATE TRANSMISSION COMPANIES AND THAT IT DID NOT INTEND TO REGULATE INDEPENDENT PRODUCERS OR GATHERERS

1. The Federal Trade Commission Report

We know from the words of Section 1(a) of the Natural Gas Act that Congress in passing the statute was responding to the disclosures contained in "reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session)". Any discussion of the legislative history of the Act should therefore begin with a consideration of those reports.

The reports were made under a resolution passed by the Senate in February 1928, authorizing the Federal Trade Commission to investigate the operations of public utility corporations and public utility holding companies doing

interstate or international business in power, light or gas.[20] Pursuant to the resolution the Commission conducted a seven-year investigation culminating in a series of reports submitted to Congress in 1934 and 1935. The Final Report of the Federal Trade Commission, dealing with the operations of such corporations in the natural gas industry, was sent to the Senate on December 31, 1935. That document, which was more than 600 pages in length, contained a comprehensive examination of the characteristics, structure, and problems of the natural gas industry.[21]

This report read in its entirety shows that the problems it laid before Congress were problems that existed because of the position and practices of the interstate transmission companies. They were depicted as controlling the "vital link of transportation" that intervened between the producing fields and the consuming markets (FTC Report 610). The report explained that the natural gas industry was "highly competitive at both ends and in two of its three groups of functions", that is, that there was competition in the production and supply of natural gas and in its sale or disposal to consumers, but that the function of transmission or transportation of the natural gas to markets was "one of the least competitive situations to be found involving commodities or public utility service" (*id.* 112). It described the interstate transmission companies as enjoying an "interstate monopoly of transmission" (*id.* 113). The report emphasized that the inter-

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[20] S. Res. No. 83, 70th Cong., 1st Sess., approved February 15, 1928, as extended by S. J. Res. No. 115, 73d Cong., 2d Sess., approved June 26, 1934. These resolutions are set forth in Final Report of the Federal Trade Commission to the Senate pursuant to S. Res. No. 83, 70th Cong., 1st Sess., Part 84-A (S. Doc. No. 92, 70th Cong., 1st Sess.) pp. v-vi.

[21] Final Report of the Federal Trade Commission to the Senate pursuant to S. Res. No. 83, 70th Cong., 1st Sess., Part 84-A (S. Doc. No. 92, 70th Cong., 1st Sess.).

state transmission lines were controlled or dominated by a small group of holding companies which likewise had interests in the producing and distribution aspects of the industry.

The report also explained that the states were unable to regulate the prices charged by the interstate transmission companies at the city gates because of Supreme Court decisions holding that under the Commerce Clause such transactions were not subject to state regulation. Consequently, the report stated, "the interstate pipe line companies * * * are at present virtually free from regulation * * *" (*id.* 613-614). It concluded that "the need for federal regulation of the activities and operations of such interstate pipe line companies appears too evident to require further discussion" (*id.* 614).

In contrast the report did not assert that any problems requiring the exercise of federal power existed by reason of the position or practices of independent producers and gatherers of natural gas. The report discussed conditions in the producing fields and the activities of independent producers and gatherers, but it did not suggest that the prices charged by such producers and gatherers were excessive or non-competitive or should be regulated by federal authority. Indeed the report pictures the independent producers or gatherers as standing in need of protection against the monopolistic, predatory and discriminatory practices of the interstate transmission companies (*id.* 185-195, 583, 590-592, 602, 608, 611). The report suggested that the remedy for these problems lay primarily in state laws and interstate compacts providing for unitized operation, equitable and ratable taking, and similar measures (*id.* 616).

It thus appears that the Federal Trade Commission Report presented to Congress for its consideration the problems created by the activities of the interstate transmission companies which were engaged in transporting

gas from the producing fields to consumer markets. It was that phase or segment of the industry, not the business of independent producers or gatherers, that was described as requiring federal regulation. As the subsequent legislative record shows, it was to that phase or segment of the industry that Congress directed its attention.

2. The Committee Hearings and Reports

On March 6, 1936, Congressman Lea introduced H. R. 11662, a bill to regulate the natural gas industry. The provisions of this bill were subsequently changed in certain respects, but the bill has been described by this Court as "substantially similar to the Natural Gas Act." *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U.S. 498, 505, and this Court has treated the hearings on the bill as an integral part of the legislative history of the statute.[22] *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, *supra;* see also *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U.S. 591, 610, n. 19; *Federal Power Commission* v. *East Ohio Gas Co.*, 338 U.S. 464, 472, n. 12.

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[22] The different steps in the progress of the legislation were:

1. H. R. 11662 was introduced in the House of Representatives in the 74th Congress, 2d Session.

2. After hearings H. R. 11662 was revised in certain respects, and introduced in the same session as H. R. 12680. For a discussion of certain of the revisions see note 27, p. 34 *infra*. H. R. 12680 was reported by the House Committee on Interstate and Foreign Commerce, but not acted upon by Congress.

3. H. R. 4008, which was the same as H. R. 12680, was introduced in the 75th Congress, 1st Session. Hearings were held on the bill by the Committee.

4. H. R. 4008 was revised in minor respects, introduced as H. R. 6586, and reported by the Committee, without further hearings.

5. H. R. 6586 was passed by the House with amendments on July 1, 1937, and by the Senate, with certain amendments, on June 7, 1938. The amendments were settled in conference and the bill as finally agreed to was approved by the President on June 21, 1938.

In the hearings before the House Committee on H. R. 11662 the first witness was Dozier A. DeVane, then Solicitor of the Federal Power Commission, who appeared at the request of the Chairman of the Committee, and testified on the scope of the bill's provisions. His testimony is of particular significance because representatives of the Federal Power Commission had participated in the drafting of the proposed legislation.[23]

In explaining the bill Mr. DeVane expressly stated that under Section 1(b) the Commission would have no jurisdiction over the rates for natural gas "that are paid in the gathering field." *Hearings before Subcommittee of Committee on Interstate and Foreign Commerce on H. R. 11662,* 74th Cong., 2d Sess., p. 28 (1937).

He made the same point again in the following colloquy with a member of the Committee (*id.* 34):

> "Mr. Cole. Does this bill give anywhere the Commission power over the source of natural gas in the different fields in a manner which we might call comparable to that which your Commission now has over hydro-electric generating plants?
>
> "Mr. DeVane. It does not; no. It does not attempt to regulate the gathering rates or the gathering business. Section 11, I believe it is, of the bill deals with that."[24]

At a later point in the hearings the Chairman of the Committee again raised the point and Mr. DeVane again

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[23] See DeVane, Highlights of Legislative History of the Federal Power Act of 1935 and the Natural Gas Act of 1938, 14 Geo. Wash. L. Rev. 30, 38-39 (1945).

[24] Mr. DeVane then observed that Section 11 limits the Commission to action through the producing states:

"But Section 11 deals with State compacts, not in the sense of prescribing what State compacts should be but simply gives to the Commission authority to investigate and report to the Congress upon the State compacts that are submitted for approval. But the bill itself does not attempt to regulate either the gathering end or the distributing end of the business; * * *." (*ibid.*)

explicitly stated that the legislation did not authorize regulation of field prices (*id.* 42-43):

> "Mr. Lea. Mr. DeVane, I would like to go back just a moment. Of course, it is a question of regulation. Suppose that the A company owns a gas supply and the B company transmits it into another State, distributes it to a local company for distribution. Now suppose the question arises as to whether or not the charges which the A company makes against the B company for the gas is reasonable. What, if any, authority would the Commission have on that question, under this bill? Do you get my question?
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> "Mr. DeVane. Yes; if I understand your question, concerning the price paid to the A company, there is no control of the gathering rate; the Commission would not have jurisdiction. That price is fixed by competitive conditions that exist in the field. But it matters not how many different ownerships there may be between the time the gas starts to move in interstate commerce and gets to the city gates. Ownership might change a dozen times—A company sell to B, and B company sell to C—all those rates would be subject to regulation.[25]

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[25] In this passage Mr. DeVane, after again stressing that the Commission would not have jurisdiction over the price paid to the producer and gatherer, recognized that where more than one pipe line company participated in the interstate transmission to the consumer market, all such pipe lines were subject to federal regulation. As the hearings indicate, in the case of some consumer states, such as Illinois, one interstate pipe line which carried gas from the producing field sold the gas at some point in the interstate journey to another interstate pipe line which in turn carried it the remainder of the distance and sold to the distributing company. See Hearings before the Committee on Interstate and Foreign Commerce on H. R. 4008, 75th Cong., 1st Sess., pp. 34, 56-57 (1937). Mr. DeVane's quoted statement shows that the legislation was designed to cover this situation. To remove any possibility that any of the sales by interstate pipe lines would not be subject to Federal jurisdiction, the bill was amended, with Mr. DeVane's approval, to emphasize that it covered all sales by the interstate pipe lines and not just the final sale for resale to the public (*id.* 57).

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"Mr. Lea. Well, when the supply company is brought before the Commission in an action to regulate its rates, and they say, 'We have got to pay so much for gas; we cannot control that price which they charge us, and we have to charge a higher price delivered to the buyer.'

"Does the Commission have any power over that?

"Mr. DeVane. No; not the price that is paid to the gatherer, to the man that produces it; that is binding if the transaction is at arm's length. If the transaction is not at arm's length, of course, its reasonableness may be inquired into, under the decisions of the Supreme Court."

No other witness and no member of the Committee, either in the hearings on H. R. 11662 or in the subsequent hearings on H. R. 4008, disagreed with or disputed Mr. DeVane's statement that the proposed legislation did not extend federal control to the field prices of natural gas. On the contrary there was testimony from other witnesses in both hearings recognizing that the legislation was directed to the practices of the interstate transmission companies and that the prices to be regulated were the prices charged by those companies with particular reference to their prices at city gates.[26] No independent

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[26] Thus in the hearings on H. R. 11662, J. D. Battle, testifying on behalf of the National Coal Association, said (*id.* 72):

"Consequently, the only phase of the industry, as I see it, that it is proposed to regulate is after the gathering ceases and the gas is turned into a main line, so to speak, until it reaches the city gate, and only then when it is moving in high-pressure mains across State lines."

And in the hearings on H. R. 4008, H. R. Booth, testifying for the Illinois Commerce Commission, said:

"The wholesale rate which is covered by the act would cover, as I understand it, any wholesale rate or charge under which a transmission company or a producing and transmission company sells natural gas and which either transmits it in interstate commerce to either a distributing company or another

producer or gatherer testified or submitted a statement in any of the hearings and there was no suggestion at any point in the hearings that the field prices of such producers and gatherers were to be subject to federal regulation.

In view of Mr. DeVane's position, the direct and explicit tenor of his statements as to the bill's scope, and the acceptance of those statements by the members of the House Committee, his testimony provides strong evidence that the members of the congressional committee that considered and reported the bill believed that it did not regulate the prices charged in the field by independent producers and gatherers.[27]

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wholesale company." (Hearings before the House Committee on Interstate and Foreign Commerce on H. R. 4008, 75th Cong., 1st Sess. p. 39 (1937)).

For testimony indicating that the evils thought to require the exertion of regulatory power were those arising from the practices of the interstate transmission companies, see particularly the testimony of William T. Chantland of the Federal Trade Commission in the hearings on H. R. 11662 (pp. 51-52, 56-57).

[27] No hearings were held on the legislation by the Senate Committee.

In the court below it was contended that Mr. DeVane's testimony should be disregarded because H. R. 11662, to which the testimony was directed, defined the scope of the Act in terms different from those used in the Natural Gas Act. The short answer to that argument is that this Court has described the bill as "substantially similar" to the Act, and has relied upon Mr. DeVane's testimony in discussing the legislative history. Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U.S. 498, 505, n. 7.

The changes made in H. R. 11662 do not impair the value of Mr. DeVane's testimony. The argument to the contrary rests on two assumptions: (1) that H. R. 11662 did not authorize the regulation of sales in interstate commerce, and (2) that the scope of the Act as defined in Section 1(b) of H. R. 11662 was extended by the changes made in the form of that section. Both assumptions are erroneous. Section 4(a)(b) of H. R. 11662 authorized the regulation of sales in interstate commerce. The words of Section 1(b) were changed not to extend the Act's coverage but to make certain that the provisions of the Act applied only to interstate transmission companies. Section 1(b) of H. R. 11662 provided that the

H. R. 6586, the bill which became the Natural Gas Act, was reported by the House Committee on Interstate and Foreign Commerce, on April 28, 1937 (H. Rep. No. 709,

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Act should apply to the transportation of natural gas in "high pressure mains" in interstate commerce and to natural-gas companies engaged in such transportation, but should not apply to the distribution of natural gas moving locally in low pressure mains or to the facilities used for such transportation or to the production of natural gas. In thus describing the scope of the statute in terms of transportation in "high pressure mains" the draftsmen of H. R. 11662 intended to describe the activities of the interstate transmission companies, since those terms were regarded as an apt description of the transportation service provided by such companies. Compare Federal Power Commission v. East Ohio Gas Company, 338 U.S. 464, 470, n. 10.

The language of Section 1(b) was criticised in the hearings on H. R. 11662 on the ground that gas was sometimes delivered by local distributing companies to consumers from high pressure mains and that the bill's language would authorize federal regulation of such transactions, and that therefore "• • • the purpose of Congress to reserve the local field to the local authorities would not be accomplished • • •." Hearings on H. R. 11662, pp. 91, 92. Therefore when H. R. 11662 was revised and reintroduced as H. R. 12680, the language of Section 1(b) was changed and the scope of the Act stated in terms substantially similar to those now found in Section 1(b) of the statute. The change was made so that federal regulation would not extend to any aspect of local distribution. At the same time the word "gathering" was added to the exclusionary phrase in Section 1(b)—a change that provided additional support for Mr. DeVane's description of the scope of the bill.

These changes in Section 1(b) were embodied in H. R. 4008 when it was introduced in the 75th Congress. The changes were not regarded as changes in substance but as revisions in form designed to carry out the draftsmen's original intent. This is shown by the fact that at the beginning of the hearings on H. R. 4008 the Chairman of the House Committee stated that there was only one substantial difference between that and H. R. 11662, *i.e.*, that H. R. 4008 provided for certificates of convenience and necessity. Hearings before the Committee on Interstate and Foreign Commerce on H. R. 4008, 75th Cong., 1st Sess., pp. 1, 23 (1937).

It is not to be supposed that this statement would have been made if the changes in the bill were understood as subjecting to regulation a whole segment of the industry clearly not covered by the original bill.

75th Cong., 1st Sess.). The report begins by explaining that (*id.* 1):

> "• • • the present bill would for the first time provide for the regulation of natural-gas companies transporting and selling natural gas in interstate commerce."

Having thus indicated that the bill was intended to regulate the interstate transmission companies, the report proceeded to point out that it was designed to reach the interstate transactions of those companies, particularly sales at the city gate, which were immune from state regulation. On this point the report said that the bill (*id.* 1-2):

> "• • • confers jurisdiction upon the Federal Power Commission over the transportation of natural gas in interstate commerce, and the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use. The States have, of course, for many years regulated sales of natural gas to consumers in intrastate transactions. The States have also been able to regulate sales to consumers even though such sales are in interstate commerce, such sales being considered local in character and in the absence of congressional prohibition subject to State regulation. (See *Pennsylvania Gas Co.* v. *Public Service Commission* (1920), 252 U.S. 23.) There is no intention in enacting the present legislation to disturb the States in their exercise of such jurisdiction. However, in the case of sales for resale, or so-called wholesale sales, in interstate commerce (for example, sales by producing companies to distributing companies) the legal situation is different. Such transactions have been considered to be not local in character and, even in the absence of Congressional action, not subject to State regulation. (See *Missouri* v. *Kansas Gas Co.* (1924), 265 U.S. 298, and *Public Service Commission* v. *Attleboro Steam & Electric Co.* (1927) 273 U.S. 83.) The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the States may not act."

The report then pointed out (*id.* 2):

> "The bill takes no authority from State commissions, and is so drawn as to complement and in no manner usurp State regulatory authority, and contains provisions for cooperative action with State regulatory bodies."

It is also significant that the report stated (*id.* 3):

> "The bill provides for regulation along recognized and more or less standardized lines. There is nothing novel in its provisions, and it is believed that no constitutional question is presented."[28]

In commenting on the provisions of Section 1(b) which excluded from regulation both the business of local distribution and the business of production or gathering, the House Report said (*ibid.*):

> "The quoted words are not actually necessary, as the matters specified therein could not be said fairly to be covered by the language affirmatively stating the jurisdiction of the Commission * * *."

This statement is again a recognition that the legislation was not directed at the operations at each end of the natural gas industry, *i.e.*, producing or gathering at the one end, and local distribution at the other, but was designed to regulate only the middle segment of the industry, the transmission and sale of gas by the interstate pipe lines.

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[28] The Committee would hardly have said that the legislation contained "nothing novel" and provided for regulation along "recognized and more or less standardized lines" if it had believed that it was for the first time extending public utility regulation to the business of producing and gathering natural gas. That is essentially a mining or extractive business. It differs radically from the business of the interstate transmission companies which consists chiefly of providing a transportation service and which closely resembles the industries historically regulated as public utilities.

One passage in the Committee Report has been seized upon by proponents of federal regulation to support the contention that the statute was designed to regulate the field prices of independent producers or gatherers. This is the passage, quoted at p. 36, *supra*, which cites *Missouri* v. *Kansas Natural Gas Co.*, 265 U.S. 298, and *Public Utilities Commission* v. *Attleboro Steam & Electric Co.*, 273 U.S. 83, and states that the basic purpose of the legislation is "to occupy this field in which the Supreme Court has held that the States may not act". The argument runs that this passage shows that Congress intended to close a "gap" in regulatory authority; that the states do not have, or at least when the Act was passed did not have, authority to regulate the prices charged in the field by independent producers or gatherers; and hence that it necessarily follows that Congress intended the Natural Gas Act to regulate those prices.[29]

This argument assumes that the words "this field" in the Committee Report comprehend the business of independent producers or gatherers. This assumption is not supported by the words of the Committee Report and it is contradicted by the whole course of the legislative history.[30] The question of what segment of the gas industry

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[29] This argument was heavily relied upon in the opinion of the court below (R. 1843-1847). See pp. 61-63 *infra*.

[30] The parenthetical reference in the Committee Report to "sales by producing companies to distributing companies" does not refer to sales by independent producers or gatherers. Read in context that statement refers to sales to local distributing companies after interstate transportation by interstate transmission companies which produce their own gas. In the instances during the hearings where there was mention of sales by "producing companies" the setting discloses that, as in the Committee Report, the reference was to an integrated transmission company which also produces gas. See, *e.g.*, the statement that the "wholesale rate" subject to regulation under the bill was the rate "under which either a transmission company or a producing and transmission company sells natural gas". Hearings before the Committee on Interstate and Foreign Commerce on H. R. 4008, 75th Cong., 1st Sess., p. 39 (1937).

was to be regulated was essentially an economic question and Congress decided it on economic grounds. As we have seen the Federal Trade Commission Report had disclosed that the evils existing in the gas industry were a result of the position and practices of the interstate transmission companies. It was the business of those companies that Congress decided to regulate; it considered questions of constitutional power only as they bore on the question of which activities of the transmission companies had to be regulated by Congress and which could be left to the regulatory power of the states.

No evidence was presented to Congress of practices by independent producers or gatherers that had created or threatened to create economic problems or evils that required federal regulation. Because there were no evils in that aspect or function of the industry that required correction there was no occasion for Congress to consider whether there was any so-called "gap" in the power to regulate independent producers or gatherers. The "gap" in regulatory authority was conceived by Congress in terms of the activities of the interstate transmission companies and not in terms of the activities of independent producers or gatherers. This is indicated by the decisions that were cited in the Committee Report as evidencing the lack of state authority, *i.e., Missouri* v. *Kansas Natural Gas Co.*, 265 U.S. 298, and *Public Utilities Commission* v. *Attleboro Steam & Electric Co.*, 273 U.S. 83. Those cases dealt with the authority of the states to regulate the activities of companies engaged in the interstate transmission of gas or electric energy to or into consuming states; they did not relate in any way to the authority of states to regulate the activities of independent producers or gatherers of natural gas.[31]

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[31] Missouri v. Kansas Natural Gas Co., 265 U.S. 298, involved a company producing and purchasing gas in Oklahoma and Kansas and transporting gas for sale in Missouri to distributing companies. In Public Utilities Commission v. Attleboro Steam & Electric Co., 273 U.S. 83, it was decided that Rhode Island could not

The attention of Congress was therefore not called to any "gap" in the authority to regulate the activities of independent producers or gatherers. There was no reason for Congress to consider such a gap because it was proceeding upon the assumption that the activities of independent producers or gatherers did not require federal regulation.

The limits which Congress placed on the regulation it imposed on the interstate transmission companies, which were operating within the unregulated field referred to in the Committee Report, also show that Congress could not have been considering any regulation of independent producers or gatherers. As we have seen, the Report stated that the Act was intended "in no manner [to] usurp State regulatory authority." See p. 37, *supra.* Congress knew that the states had, as this Court said in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.,* 337 U.S. 498, 510, 513, "delegated broad and elaborate power to their regulatory bodies on all aspects of producing gas."[32] One of the major purposes of the

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regulate a sale of electric energy at the Massachusetts state line for transmission and subsequent distribution in Massachusetts. In Panhandle Eastern Pipe Line Co. v. Public Service Commission of Indiana, 332 U.S. 507, 514, this Court cited the two cases for the proposition that by 1938 the courts had held that the states "could not intrude" on "service interstate to local distributing companies for resale." See also Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 610.

[32] When the statute was passed it had long been recognized that the states had a special interest in natural gas and that its regulation touched rights of "an essentially local character." See Ohio Oil Company v. Indiana, (No. 1), 177 U. S. 190, 211-212; Lindsley v. Natural Carbonic Gas Co., 220 U. S. 61; Pierce Oil Corp. v. Phoenix Refining Company, 259 U. S. 125; Walls v. Midland Carbon Co., 254 U. S. 300, 319; Bandini Petroleum Co. v. Superior Court, Los Angeles County, Calif., 284 U. S. 8; Henderson Co. v. Thompson, 300 U. S. 258, 264. It had also long been recognized

inclusion of the "production or gathering" exemption was to make sure that even the regulation of the interstate transmission companies should not interfere with this conservation regulation. It is inconceivable that Congress could have taken this care to prevent the regulation of the interstate transmission companies from interfering with the state programs and at the same time have intended to subject to regulation the business of the independent producers and gatherers; the nature of that business is such that any federal regulation would necessarily conflict and interfere with the producing states' regulatory programs. See pp. 73-84, *infra*.

3. The Debates

H. R. 6586 was passed by both houses of Congress without extensive debate, the bill being described in both houses as non-controversial in nature (81 Cong. Rec. 6726; 83 Cong. Rec. 8347). The debates reflect the same views about the purpose and scope of the legislation that were expressed in the earlier stages of the legislative history. Thus, the bill was regarded as directed at the practices of the interstate transmission lines that were engaged in moving gas by pipe line from the producing fields to the consuming markets. The bill's sponsors made this point specifically in their descriptions of the bill and referred particularly to the necessity for federal regulation of the prices charged by the interstate transmission companies

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that the states might regulate matters of local concern even though the regulation affected interstate commerce. Willson v. Black-bird Creek Marsh Co., 2 Pet. 245; Cooley v. Board of Wardens of the Port of Philadelphia, 12 How. 298; South Carolina State Highway Department v. Barnwell Brothers, Inc., 303 U. S. 177, 184-185, 188-189.

In reliance on these principles this Court held in Cities Service Gas Co. v. Peerless Oil & Gas Co., 340 U. S. 179, that in the interests of conservation the State of Oklahoma could require producers to realize minimum prices for gas sold in interstate commerce. See pp. 63-66, *infra*.

at the city gates.[33] There was no reference in the debates to any problems created by the activities of independent producers or gatherers and no assertions that the bill was intended to regulate their activities or the prices that they charged in the field for gas they produced or gathered.[34]

In the House of Representatives the Chairman of the House Committee on Interstate and Foreign Commerce, took the lead in presenting the bill. He stated that the report of the Federal Trade Commission provided the "statistical background that gives the setting for this legislation"; that "the city-gate rates in an interstate shipment could be controlled by the Federal Power Commission under this bill" and that the "State commission does not have that power now"; that "this bill takes nothing from the State commissions"; and that the bill "does not apply to the production and gathering of gas" (81 Cong. Rec. 6721).[35]

Other members of the committee that had reported the bill repeated and enlarged upon the same themes. It was

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[33] One of the aspects of pipe line service singled out for attack was discrimination by interstate pipe lines in the city gate rates charged different communities. 81 Cong. Rec. 9315 (1937).

[34] Significantly, the House was told that the "only provision in the bill which seems to look to the conservation of the natural gas resources of the country is that contained in the provision relating to the State compacts [Section 11]." 81 Cong. Rec. 6726 (1937).

In Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U. S. 498, 512, n. 16, this Court pointed out that in 1937 while Congress was considering the passage of the Natural Gas Act, another bill was introduced in both Houses of Congress which would have extended the authority of the Federal Power Commission "to the procurement of natural gas" for interstate transmission. This Court commented "The provisions of this bill, however, failed of adoption; instead Congress enacted § 1(b) with its specific exemptions from the coverage of the Act."

[35] Others also pointed out that the bill was the culmination of the Federal Trade Commission investigation (*id.* 6724, 6725).

said that the "State commissions have had no power over the interstate activities of the pipe-line companies" (*id.* 6726) and that they were "charging what they please at the city gate" (*id.* 6724). Congressman Halleck of Indiana explained that "in many instances the transportation company, transporting in interstate commerce, has charged a rate which is higher than is deemed fair and reasonable" (*id.* 6723).[36] Another proponent of the bill stated its purpose in the following terms (*id.* 6726):

> "It gives the Federal Power Commission power to fix the cost of the transportation of natural gas shipped in interstate commerce and the wholesale price which may be charged for it at the consuming centers."

In the Senate, where there was less extensive debate than in the House, the scope of the legislation was explained in similar terms. The Chairman of the Committee on Interstate Commerce, in explaining the bill, said (*id.* 9312):

> "Mr. Wheeler. It does not attempt to regulate the producers of natural gas or the distributors of natural

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[36] Congressman Halleck explicitly stated that the bill would authorize regulation of the prices at the city gates in the following passage (*id.* 6723):

> "In the past few years the interstate transportation of gas in large pipe lines at high pressure had been growing by leaps and bounds. Gas is brought from the producing areas in these pipe lines and sold at the city gates to the public utilities which distribute the gas to the consumers. It is obvious the distribution of the gas by the local distributing company is subject to State regulation and the interests of the consumers are protected by State regulation. However, the transportation of gas in interstate commerce in the pipe lines and its sale to the distributing companies for resale is not subject to State regulation, and as a result, we have had a situation under which the price charged the distributing company at the city gate has been fixed wholly by the judgment, discretion, or action of the interstate company. It is charged that in many cases that price is excessive. This bill seeks to regulate those prices."

gas; only those who sell it wholesale in interstate commerce.

* * *

"Mr. Austin. Is the bill limited in its scope to the regulation of transportation?

"Mr. Wheeler. Yes; it is limited to transportation in interstate commerce, and it affects only those who sell gas wholesale."

At a later point in the debate, Senator Wheeler framed the problem to which the bill was directed as follows (*id.* 9314):

"The purpose of the bill is to help the State commissions and the people of the country find out what is the cost of transporting natural gas to the larger cities, such as Detroit, Chicago, Cleveland, and New York City. It does not do any good to give the Illinois commission the power to regulate the price of gas in the city of Chicago if they can be held up—and that is all that it is—by pipe-line companies which ship the gas to Chicago and be told. 'It is going to cost the city of Chicago so much at wholesale for this gas.' What good does it do the people of Chicago if they cannot reach the wholesale price and do something to regulate the pipe-line companies which transport the gas into the city of Chicago?"[37]

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[37] In voicing agreement with Senator Wheeler, other Senators expressed the problem in similar terms. See *e.g.*, 81 Cong. Rec. 9315:

"* * * As the Senator says, when an effort is made to regulate the price of gas, we will say, by way of illustration, in Terre Haute, Ind., just across the Illinois line, as far as the Public Service Commission of the State of Indiana can go is to ascertain what the wholesale price is to the gas company in Terre Haute. That may be 50 or 60 cents a thousand; but when they say, 'Produce your contract and let us look into the cost of getting that gas to the gateway at Terre Haute, Ind.'; the company replies, 'Oh, no; that is interstate commerce, and you cannot enter into that field.'

"Therefore, as the Senator has pointed out, our Public Service Commission cannot determine whether or not the people of Terre Haute are being charged a fair rate for their gas, because it cannot determine the fairness of the wholesale rate that is charged at the gate at Terre Haute."

This review of the legislative history has not been contrived by culling particular passages from the hearings, the Committee Report and the debates without regard to the context of the passages or their relationship to other passages dealing with similar subject matter. Each of the particular statements that has been quoted or paraphrased in the discussion is significant not in isolation but because of the light it throws on the legislative history viewed as an entirety and in all of its aspects. That history beginning with the Federal Trade Commission Report and ending with the debates in both Houses of Congress, read as a whole, provides a solid basis for appraising the intent of Congress. The appraisal confirms and supports the regulatory plan and purpose disclosed on the face of the statute. Congress intended to regulate the business of the interstate transmission companies which were engaged in the transportation of gas in interstate commerce from the producing fields to consuming markets—the business that is described in Section 1(a) of the statute as "the business of transporting and selling natural gas for ultimate distribution to the public." Congress did not intend to regulate the business of independent producers or gatherers, and specifically it did not intend to fix the prices at which they sold their gas in the field.[38]

C. THE FEDERAL POWER COMMISSION'S CONSISTENT ADMINISTRATION OF THE NATURAL GAS ACT CONFIRMS THE ABSENCE OF COMMISSION JURISDICTION OVER THE BUSINESS OF INDEPENDENT PRODUCERS AND GATHERERS, INCLUDING SALES BY THEM FOR RESALE

The first case involving the status of an independent producer or gatherer to come before the Federal Power Commission after the passage of the Natural Gas Act was *In the Matter of Columbian Fuel Corporation,* 2 F.P.C.

[38] This is the view reached by independent commentators who have examined the legislative history. See Berger and Krash, Status of Independent Producers under the Natural Gas Act, 30 Tex. L. Rev. 29 (1951); Comment, 59 Yale L. J. 1468 (1950); Note, 52 Col. L. R. 135 (1952); Note, 22 Geo. Wash. L. Rev. 118 (1953).

200, decided June 29, 1940. In that case Columbian was engaged in producing and gathering natural gas and selling and delivering the gas at the termini of its gathering lines to an interstate transmission company. The question was whether the Commission was authorized by the statute to regulate these sales; in the words of the Commission the issue was "whether the Natural Gas Act confers on the Federal Power Commission jurisdiction over a company engaged solely in the production and gathering of natural gas when such company is also engaged in the sale of such gas in interstate commerce."

Representatives of the producing and consuming states and of associations of independent producers, as well as the companies concerned, participated in the hearing before the Commission. After a review of the terms of the statute and its legislative history the Commission, with one member dissenting, concluded that Congress intended to regulate only "pipe line" companies and that it was (*id.* 208):

> "not the intention of Congress to subject to regulation under the Natural Gas Act all persons whose only sales of natural gas in interstate commerce, as in this case, are made as an incident to and immediately upon completion of such person's production and gathering of said natural gas and who are not otherwise subject to the jurisdiction of this Commission."

It is to be noted that three of the four Commissioners who joined in this decision were members of the Federal Power Commission at the time the Natural Gas Act was passed and that one of the three (Commissioner Seavey) had been designated by the Commission to assist the Congressional committees in drafting the bills that ultimately resulted in the passage of the statute.[39]

A few months later the Commission was called upon to consider the application of the statute to a company

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[39] DeVane, Highlights of Legislative History of the Federal Power Act of 1935 and the Natural Gas Act of 1938, 14 Geo. Wash. L. Rev. pp. 30, 39 (1945).

engaged in production and gathering and also in the interstate transmission business. *In the Matter of Billings Gas Co.*, 2 F.P.C. 288, decided October 15, 1940. The Commission held that a company that produced and gathered natural gas and then transported the gas beyond the termini of its gathering lines through a transmission line to a state border, where it sold the gas to another interstate transmission company, was a natural gas company and subject to federal regulation. The Commission distinguished *Columbian Fuel Corporation*, saying that in that case (*id.* 289):

> "There was no transportation of natural gas in interstate commerce beyond the termini of the gathering lines. A person, however, engaged in the production and gathering of natural gas and the subsequent transportation, or transportation and sale, thereof in interstate commerce, would not fall within the same category."

The two decisions taken together established a jurisdictional test for determining whether on the facts of a particular case sales were subject to regulation under the statute. The test was whether the sales were "made as an incident to and immediately upon completion of" the production or gathering process as the *Columbian* case or were made by a company that is "engaged in the production and gathering of natural gas and the subsequent transportation, or transportation and sale, thereof in interstate commerce" as in the *Billings* case.

In the thirteen years that have followed since the Commission decided the *Columbian* and *Billings* cases it has adhered to this jurisdictional test and has consistently construed the Natural Gas Act as not authorizing the regulation of sales made by independent producers and gatherers as part of their business. *Repollo Oil Co.*, 2 F.P.C. 1004 (1941); *Sinclair Prairie Oil Co.*, 2 F.P.C. 1009 (1941); *The Fin-Ker Oil and Gas Production Co.*, 6 F.P.C. 92 (1947); *Tennessee Gas and Transmission Company and The Chicago Corporation*, 6 F.P.C. 98 (1947); *Kansas-Nebraska Natural Gas Co., Inc.*, 6 F.P.C. 664 (1947);

R. J. and D. E. Whelan, 6 F.P.C. 672 (1947); *Hassie Hunt Trust*, 6 F.P.C. 835 (1947); *Sinclair Prairie Oil Co.*, 6 F.P.C. 1059 (1947); *La Gloria Corp.*, 7 F.P.C. 349 (1948); *The Superior Oil Co.*, 7 F.P.C. 627 (1948). Throughout this period the Commission has not in a single instance regulated or attempted to regulate field sales of gas made by independent producers or gatherers to interstate transmission companies.[40]

The fact that the Federal Power Commission has thus consistently construed the statute as not providing for federal regulation of field sales of independent producers and gatherers is highly persuasive that Congress did not authorize such regulation. See *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U.S. 498, 513; *Federal Trade Commission* v. *Bunte Brothers, Inc.*, 312 U.S. 349, 351-352; *National Labor Relations Board* v. *Hearst Publications, Inc.*, 322 U.S. 111, 131; *United States* v. *Chicago North Shore & Milwaukee R. Co.*, 288 U.S. 1, 13-14; *Norwegian Nitrogen Products Co.* v. *United States*, 288 U.S. 294, 315; *United States* v. *American Trucking Ass'ns, Inc.*, 310 U.S. 534, 549; *Levinson* v. *Spector Motor Service*, 330 U.S. 649, 667, 672.

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[40] In the court below it was argued that certain statements made by the Commission in Interstate Natural Gas Co. Inc., et al., 3 F.P.C. 416, were inconsistent with the interpretation of the statute it adopted in the Columbian case and the other cases cited above. It is clear, however, that the Commission's opinion in the Interstate case did not abandon or change the jurisdictional rule laid down in the Columbian case. On its facts the Interstate case was like the Billings case; the sales there were made by an interstate transmission company after transportation in interstate commerce in the statutory sense (3 F.P.C. 432-433). In its opinion in the Interstate case the Commission did not refer to the Columbian case or suggest that it was overruling or abandoning the jurisdictional test there laid down. The four Commissioners who joined in the opinion in the Interstate case also joined in the opinion in the Columbian case; they could hardly have intended to overrule the latter decision *sub silentio*, particularly since that decision was later followed in a number of cases.

D. THE DECISIONS OF THIS COURT RECOGNIZE THAT THE NATURAL GAS ACT DOES NOT AUTHORIZE ANY DIRECT FEDERAL REGULATION OF THE BUSINESS OF PRODUCING AND GATHERING

We have shown above that the Natural Gas Act was intended by Congress, and is framed, to provide a standardized form of utility regulation of the interstate service of transmitting natural gas to consumer markets. The major decisions of this Court under the Act have been concerned principally with the difficult problems created by the fact that the operations of many of the interstate pipe line companies subject to this regulation are not confined to the transmission business. These decisions do not decide this case.[41] Nevertheless they do support the interpretation of the Act set forth above.

Taken as a group and read in the light of the problems with which the Court was concerned, these cases demonstrate an awareness of three fundamental aspects of the Act. They are:

(1) That the companies regulated are the transmission companies performing the interstate service of transporting gas to consumer markets.

(2) That the regulation of the interstate transmission companies is not to extend federal authority into any area in which the states are constitutionally competent to act for any purpose.

(3) That the Act precludes any direct regulation of the business of producing and gathering.

In *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591, and *Colorado Interstate Gas Co.* v. *Federal*

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[41] The question raised by this case was specifically reserved by this Court in Interstate Natural Gas Co. v. Federal Power Commission, 331 U. S. 682, 690-691, n. 18. There this Court, referred to the Columbian case, 2 F.P.C. 200, and the Billings case, 2 F.P.C. 288, and said: "We express no opinion as to the validity of the jurisdictional test employed by the Commission in these cases."

Power Commission, 324 U. S. 581, this Court dealt with the problem of rate regulation of interstate transmission companies which also own and operate producing and gathering facilities.[42] This Court held in those cases that the Natural Gas Act does not require the Federal Power Commission to use any particular method of rate fixing, and that accordingly the responsibilities of a reviewing court are limited to determining whether the result or the impact of the regulation is arbitrary or constitutionally unfair. These holdings were based on the failure of Congress to require any particular method of rate regulation on the face of the Act. In both cases this Court pointed out that the Act was framed in the traditional and standardized language used for the regulation of transportation services. 324 U. S. at 601; 320 U. S. at 616.[43]

In the *Colorado Interstate* case the transmission line contended that the production or gathering exemption required the Commission to exclude from the rate base the company's producing properties and gathering facilities and to allow the company, as an operating expense, the fair field value of the gas the company produced. In answering this contention the Court pointed out that the Commission could have used precisely the method urged upon it by the transmission line without changing the result reached in the order under attack. 324 U. S. at 603. For this reason and for the reason that the language of the Act nowhere indicated that Congress intended that the particular method of regulation urged on the Court be used, the Court followed its holding in the *Hope* case that under the Act it is "the result reached not the method employed which is controlling." 324 U. S. at 603.

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[42] Another form of this problem raising the question of the impact of such regulation on the regulatory powers of the producing states is involved in Northern Natural Gas Company, et al. v. Federal Power Commission, Nos. 381 and 382, now pending on a petition for rehearing from a denial of certiorari in this Court.

[43] See also Federal Power Commission v. Natural Gas Pipeline Co., 315 U. S. 575, 584.

The *Hope* and the *Colorado Interstate* decisions flow from the fact that when Congress decided to regulate the interstate service of transmitting gas to consumer markets it necessarily had to regulate companies performing that service regardless of whether they also owned producing properties and gathering facilities. Where such companies are regulated, as the Court pointed out in the *Colorado Interstate* case, the regulation has some necessary impact on the value of those properties and facilities, and it will have that impact regardless of the method of regulation used. This is unavoidable because at the end of interstate transmission the price of natural gas as a mineral is inseparable from the cost of transporting it to the consumer market. But, as the Court also pointed out in the *Colorado Interstate* case, the impact is not a direct one; it is an indirect impact whose effect is to a large extent diluted because the predominant part of the properties comprising the rate base are the transmission properties and not the producing and gathering properties.[44] For the same reason the predominant part of the cost to the consumer is the cost of transportation, not the field value of the gas itself. See *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U. S. 179, 187.

Both decisions recognized, while facing up to the necessary indirect impact of rate regulation on producing and gathering, that the Act was drafted and intended to exclude any direct federal regulation of the producing and gathering business. In the *Hope* case, for example, this Court emphasized that the cut of the legislation was against the transmission company problem, leaving to the states regulation of the business of production and gathering for

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[44] Even so, four Justices of this Court dissented in the Colorado Interstate case on the ground that the Commission's order subjected the company's production and gathering facilities to the same regulation imposed upon petitioner's property used in the interstate transportation and sale of gas for resale, and that this was prohibited by the provisions of the statute (324 U. S. at 615-625).

conservation or other legitimate local purposes. The Court stated (320 U. S. at 610):

> ". . . the bill was designed to take 'no authority from State commissions' and was 'so drawn as to complement and in no manner usurp State regulatory authority.' *Id.*, p. 2. And the Federal Power Commission was given no authority over the 'production or gathering of natural gas.' § 1(b).
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> "The primary aim of this legislation was to protect consumers against exploitation at the hands of natural gas companies. Due to the hiatus in regulation which resulted from the *Kansas Gas Co.* case and related decisions state commissions found it difficult or impossible to discover what it cost interstate pipe-line companies to deliver gas within the consuming states; and thus they were thwarted in local regulation. H. Rep. No. 709, *supra*, p. 3. Moreover, the investigations of the Federal Trade Commission had disclosed that the majority of the pipe-line mileage in the country used to transport natural gas, together with an increasing percentage of the natural gas supply for pipe-line transportation, had been acquired by a handful of holding companies. State commissions, independent producers, and communities having or seeking the service were growing quite helpless against these combinations. These were the types of problems with which those participating in the hearings were preoccupied. Congress addressed itself to those specific evils."

It is to be noted that in this passage the Court described the "hiatus" in regulation that the statute was intended to close as being a "hiatus" in the authority to regulate the "interstate pipe-line companies" which delivered gas "within the consuming states," a description that recognizes and confirms the plain import of the legislative history. See pp. 38-40, *supra*.[45]

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[45] See also United States v. Public Utilities Commission of California, 345 U. S. 295, 311, where this Court described the pre-statutory gap in terms of a lack of power to control "utility rates" and as a gap in "utility regulation". And see also Panhandle Eastern Pipe Line Co. v. Public Service Commission of Indiana, 332 U. S. 507, 514.

The Court also expressly recognized that the power left in the producing states was the total of its constitutional power over the activities of independent producers and gatherers, that is to say, "those who sell their gas to the interstate operator." The Court said (*id.* 614-615):

> "It is hardly necessary to add that a limitation on the net earnings of a natural gas company from its interstate business is not a limitation on the power of the producing state either to safeguard its tax revenues from that industry or to protect the interests of those who sell their gas to the interstate operator. The return which the Commission allowed was the net return after all such charges."

The case of *Interstate Natural Gas Co.* v. *Federal Power Commission,* 331 U. S. 682, which was heavily relied upon by the Court of Appeals, deals with another form of the rate regulation problem considered in the *Hope* and *Colorado Interstate* cases. In the *Interstate* case, following successful resistance by Interstate of attempts by the State of Louisiana to regulate it, the Federal Power Commission was asked by the State to fix the rates on Interstate's transmission business. 331 U. S. at 687 n. 9; 691 n. 22; 692.[46] In fixing those rates the Commission asserted jurisdiction over the whole of Interstate's business, including three sales made by it in the producing field. Interstate contended that these sales should have been exempt under the production or gathering exemption. In rejecting this contention, the Commission found, in effect, that the sales were part of Interstate's transmission business and not

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[46] Interstate's producing properties and gathering facilities were located in the State of Louisiana. The fact that the State did not oppose federal regulation of Interstate's business was regarded by this Court as persuasive evidence that the Commission's assertion of jurisdiction did not intrude federal power into an area reserved for state action.

exempt as a part of production or gathering. *Interstate Natural Gas Co., Inc.*, 3 F.P.C. 416 at 420, 432-433.[47]

This Court upheld the Commission's assertion of jurisdiction over the sales. In its opinion the Court set forth a test to be applied in determining whether sales made by a transmission company at points physically close to the company's producing facilities and gathering lines are exempt from regulation. This test seems clearly to be based upon regard for the intention of Congress to exclude from federal regulation the business of production and gathering and to leave to the states full freedom to act in that area in the interests of conservation. The test was stated by the Court in the following terms (*id.* 690):

> "Clearly, among the powers thus reserved to the States is the power to regulate the physical production and gathering of natural gas in the interests of conservation or of any other consideration of legitimate local concern. It was the intention of Congress to give the States full freedom in these matters. Thus, where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach."

This test gives full effect to the exemption as applied to the operations of the transmission companies which Congress was seeking to regulate. The regulation imposed on Interstate by the Federal Power Commission did not

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[47] The Commission found that the gathering process was completed at some point prior to the sale. See 331 U. S. 682, 692. Physically the sales were made out of Interstate's transmission lines which were in fact the lines by which Interstate carried gas from the producing field to consumer markets. The Commission found that "interstate transportation" in the statutory sense had occurred prior to the sales (3 F.P.C. at 420, 433).

involve any direct regulation of producing or gathering. Interstate itself, as the Commission found, did not treat the challenged sales any differently from the rest of its sales. The rate regulation which the Commission imposed on Interstate allowed a fair return on the whole of Interstate's business, the rates for the challenged sales being set on the basis of an allocation of the reduction in the total return from that business. In setting these rates the Commission allowed as an operating expense the cost of gas purchased by Interstate from companies which produced and gathered it and then sold it to Interstate at the end of their gathering facilities. This Court did not review the fairness of the allocation of the overall rate reduction which was made by the Commission, but the court below upheld it solely on the basis that Interstate was forced to concede that it was getting a fair return on the whole of its business. 156 F. 2d 949, 950-951.

In such a situation, as in the *Colorado Interstate* and *Hope* cases, the rate regulation has no direct impact on the producing properties and gathering facilities. It has the same unavoidable indirect effect on those facilities that the rate regulation in *Hope* and *Colorado Interstate* had. But the rate base on which the return to the company is allowed is a base consisting largely of the cost of transmission and the direct impact of the regulation is on the transmission business and not on the producing and gathering activities of the regulated company. In such a case there is no direct regulation of production or gathering and no necessary or clear invasion of the area reserved to the states.[48] Accordingly, the Court held, the company

[48] In its brief and argument before this Court in the Interstate case, the Federal Power Commission repeatedly called to the attention of this Court the distinction between regulation of sales made at arm's length by independent producers and gatherers and sales made by transmission companies at points physically close to their producing and gathering facilities. Brief for the Federal Power Commission, Interstate Natural Gas Co. v. Federal Power Commission, No. 733, Oct. Term, 1946, pp. 18-19, 34-35, 40-45.

must prove that the sales involved are so inextricable a part of a production and gathering business carried on separately from the transmission business that any regulation of them would necessarily intrude into the area reserved to the states and interfere with the constitutional power of the states to regulate in that area.

The test laid down in the *Interstate* case is appropriate for determining when regulation of an integrated interstate transmission business will directly regulate production or gathering and therefore intrude into the area in which the states are competent to act. But there is no occasion to use the test when the asserted regulation applies to independent producers and gatherers. Such regulation is necessarily regulation of the producing and gathering business and not of the transmission business and must necessarily invade the area of state power. The rate base would consist solely of producing properties and gathering facilities which are admittedly exempt under any construction of the Act.[49] The intrusion into the area reserved to the states would be direct and unavoidable, as is demonstrated by the findings of the Commission in this case and the underlying facts on which those findings are based. See pages 73-84, *infra*. The rate fixed would not be the cost of the transportation service at which the Act is directed, but would be the price of gas as a mineral. It is the price of gas in this sense which has a direct effect on the conservation policies of the producing states and it is the price of the gas in this sense that this Court has held that the producing states may fix for conservation purposes. See *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U. S. 179.

The *Interstate* case therefore is not and cannot be a precedent for any direct regulation of any part of the

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[49] The possibility relied on in the Colorado Interstate case of excluding the producing properties and gathering facilities from the rate base and still reaching the same result would of course be unavailable to the Commission. See 324 U. S. at 603-604.

business of producing and gathering natural gas. In the only instance in which the Commission has attempted such direct regulation this Court struck down the attempt even though it was defended on the ground that it was necessary to adequate regulation of an interstate transmission company clearly engaged in the interstate transmission business which Congress intended to regulate. *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498. In that case the Commission asserted jurisdiction over a proposed transfer of gas leases on the grounds that the transfer might deprive Panhandle of the ability to perform the services for which the Commission had granted it a certificate of convenience and necessity. This Court reviewed the legislative history in detail and concluded that the production or gathering exemption must be given its full scope. The Court, in rejecting the Commission's arguments, said (*id.* 509-513):

> "To accept these arguments springing from power to allow interstate service, fix rates, and control abandonment would establish wide control by the Federal Power Commission over the production and gathering of gas. It would invite expansion of power into other phases of the forbidden area. It would be an assumption of powers specifically denied the Commission by the words of the Act as explained in the report and on the floor of both Houses of Congress. The legislative history of this Act is replete with evidence of the care taken by Congress to keep the power over the production and gathering of gas within the states. This probably occurred because the state legislatures, in the interests of conservation, had delegated broad and elaborate power to their regulatory bodies over all aspects of producing gas. The Natural Gas Act was designed to supplement state power and to produce a harmonious and comprehensive regulation of the industry."

The Court rejected the argument that the *Colorado Interstate* decision was a precedent for direct regulation of the business of production and gathering. In doing so

the Court stated that even though it was apparent that "the cost of gas bought by a natural gas company from producers" would be a weighty factor in rate making, Congress nevertheless excluded the Commission "from exercising any direct control or regulation over the actual production and gathering of gas." After describing its holding in the *Colorado Interstate* case the Court went on to say (*id.* at 506-507):

> "The use of such data for rate making is not a precedent for regulation of any part of production or marketing. Before the *Colorado Interstate* decision, it was apparent that the value of producing facilities and the cost of gas bought by a natural-gas company from producers would be weighty factors in rate making whether a rate-base method or other method for fixing rates was used. Low valuation by the Commission of producing properties or low-cost allowance for purchased gas discourages exploration for gas or its sale in interstate commerce. Congress knew this necessary relationship between production and distribution but excluded the Commission from exercising any direct control or regulation over the actual production and gathering of natural gas."

II

THE DECISION OF THE FEDERAL POWER COMMISSION THAT PHILLIPS' SALES ARE NOT SUBJECT TO FEDERAL REGULATION BECAUSE THEY ARE PART OF THE BUSINESS OF PRODUCING AND GATHERING IS CORRECT IN LAW AND FACT AND SHOULD BE UPHELD

A. THE COMMISSION CORRECTLY CONSTRUED THE NATURAL GAS ACT TO EXCLUDE THE WHOLE OF THE BUSINESS OF PRODUCING AND GATHERING

In its opinion in this case, the Commission noted that in addition to making an analysis of the record and briefs before it, it also made "an extensive review of the provisions of the Act, its history, our own decisions during 13 years of administering the Act, and relevant judicial decisions" (R. 1741). From that analysis and review the Com-

mission concluded again, as it had in prior cases, that it had no jurisdiction over transportation or sales made as a part of production and gathering. It construed the meaning of the words "production or gathering" in Section 1(b) of the Act in the following terms (*ibid.*):

> "We believe that Congress, by the exemption of production and gathering, intended to deny this Commission jurisdiction over the business of producing and gathering."

In the preceding sections of the brief we have shown that this construction of the statute is correct as a matter of law. A reading of the words of the statute in their ordinary sense shows that the Act contemplates only regulation of interstate transmission companies performing the service of transporting gas to consumer markets. The legislative history taken as a whole confirms that this is the meaning of the statute and that Congress did not intend to intrude federal regulation in any degree into the areas of local concern at either end of the business of transporting gas interstate to consumer markets. The exclusion from regulation of "production or gathering" should therefore as a matter of statutory construction be taken to mean that no direct regulation of any part of the business of production and gathering is authorized by the Act. This construction of the statute has been followed by the Commission during the 16 years since the passage of the Act and the principles on which it rests are reflected in the decisions of this Court.

On this construction of the statute Phillips' sales are immune from regulation unless it can be said that the sales, viewed in terms of business operations and economic function, are not a part of the business of producing and gathering. The Commission considered this point and found that in fact Phillips' sales were made as a part of the business of production and gathering; this finding was fully supported by the evidence. See pp. 67-72, *infra*.

Although there are passages in the opinion of the court below that show that the court rejected the Commission's appraisal of the facts, the court did not purport to set aside this finding by the Commission on the ground that it was unsupported by the evidence or erroneous in fact. The court rather took the position that the case turned on a question of law. In the concluding paragraph of its opinion it stated that the validity of the Commission's decision was "not dependent upon the evaluation of testimony or upon any facts peculiar to this case" and that the Commission "has applied an erroneous rule of law" (R. 1849).

The court below did not attempt a definition of the statutory phrase "production or gathering" or otherwise explain the scope that it believed the phrase might properly be given. Consequently neither the court's interpretation of the statute nor the reasons for that interpretation are entirely clear. There is no doubt, however, that the court construed the words "production or gathering" as covering something less than the whole of the business of an independent producer and gatherer. In thus limiting the meaning of those words the court below erred.

In part, the holding of the court below appears to be based on its conclusion that in the circumstances of this particular case Phillips' sales were preceded by activities that could not as a matter of law or fact be considered a part of "production or gathering" within the meaning of the Act; this appears to be the significance of the court's statement that the sales were made after processing had "intervened" and after the gas had moved through short plant outlets (R. 1842). As is pointed out below, there is no basis in either law or fact for this conclusion and the court committed error in relying on it. See pp. 70-73 *infra*.

At the same time, it seems clear that the court did not intend to rest its decision solely on this limited basis. The ultimate premise of its opinion appears to be a more basic construction of the statute. The Court stated broadly

that the "exemption of production or gathering does not exempt sales made after production and gathering have been completed" and that the exemption does not cover "interstate sales of gas by the corporation that produced and gathered it" (R. 1849). These statements, read in the light of the court's assertion that nothing turned "upon any facts peculiar to this case" (*ibid.*), seem to mean that the Court of Appeals construed the words "production or gathering" as not covering sales made as the final and culminating step in the gathering process.

There is nothing anywhere in the statute which in any way lends support to a construction of the words "production or gathering" which is limited in this respect. The statute speaks in terms of whole segments of the industry. Section 1(a) defines the business covered by the statute as the business of transportation and sale of natural gas in interstate commerce. Section 1(b) specifically excludes the areas at either end of this business—"local distribution" and "production or gathering"—and does so in generic terms without limitation. Nothing in the regulatory provisions of the statute which follow, such as the provisions giving the Commission authority to fix rates, prevent abandonment and issue certificates of convenience and necessity, in any way detracts from the broad statement of affirmative coverage and the generic descriptions of the exempted areas which are contained in Section 1. Compare *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 507-509.

For these reasons the court's construction of the words "production or gathering" must rest on some ground that does not appear on the face of the statute. That ground is disclosed in the court's discussion of the constitutional powers of the states to regulate field sales of natural gas. The court stated that in its opinion no state could regulate Phillips' sales and distinguished this Court's opinion in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*,

340 U. S. 179, on the ground that unlike the sales there involved, Phillips' sales are made "after the gas has been gathered into trunk lines" (R. 1847). The court below, however, apparently considered that sales in interstate commerce at the well-head were exempt from regulation under the Act. This discussion of the constitutional powers of the states, read in connection with the court's discussion of legislative history, indicates the basis for the court's conclusion that the words "production or gathering" do not comprehend sales for resale in interstate commerce made as the final and culminating step in the gathering process. The court apparently believed that the states have no constitutional power to regulate such sales and that since the Act was intended to fill a gap in regulation it necessarily follows that federal authority extends to all such sales.

In accepting this argument as a basis for its construction of the statute, the court below did not go so far as to hold that all sales for resale in interstate commerce are subject to federal regulation because no state can regulate them in the same manner as they are regulated under the Natural Gas Act. Indeed the court below could not have taken that position in view of this Court's statement in *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U.S. 682, 690, to the effect that even in the case of an interstate transmission company sales for resale in interstate commerce may be exempt from federal regulation under the production or gathering exemption if federal rate regulation would interfere with state conservation power as distinguished from state power to impose the kind of regulation provided for by the Natural Gas Act.[50]

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[50] In view of the opinion in the Interstate case it is unnecessary to consider the extent of power of the states to regulate for purposes other than conservation. However, the constitutional principles reaffirmed by this Court in the Cities Service case would permit a producing state to regulate interstate sales for the pur-

The position adopted by the Court of Appeals is more restricted. This position is that Congress meant by the Natural Gas Act to grant authority to the Federal Power Commission to regulate all sales for resale which could not constitutionally be regulated by any state for any purpose. In its opinion, for example, the court apparently thought that sales for resale in interstate commerce made at the well-head fell within the exemption of "production or gathering" because under this Court's decision in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U.S. 179, the producing states have the power to fix minimum prices on such sales in aid of conservation (R. 1847).

This position involves both a misinterpretation of the legislative history and an erroneous view of the scope of state power. So far as concerns legislative history, it is clear that the "gap" with which Congress was concerned was a "gap" in the power of the consuming states to regulate the companies performing the service of transporting gas interstate to consumer markets. The gap that Congress closed was not related to the activities of independent producers or gatherers and was not conceived in terms of the constitutional power of the states to regulate those activities. See pp. 38-40, *supra*.

In any event, there is nothing in the *Cities Service* case nor in the decisions on which it relies which would distinguish between sales made at the well-head and sales such as Phillips' which are made at the end of gathering.[51] The test of the constitutional competence of the

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pose of protecting consumers if it could be shown that the regulation did not discriminate against interstate commerce, was designed to protect a legitimate state interest, and that the local interest to be served outweighed whatever national interest there might be against state restrictions. These questions could only be resolved by this Court on a case-to-case basis. Prudential Insurance Co. v. Benjamin, 328 U.S. 408.

[51] The Court of Appeals also quoted the language from the opinion of this Court in Federal Power Commission v. East Ohio Gas

states to regulate sales in aid of conservation is a practical test, not a mechanical test. It does not depend upon the physical point in the producing fields at which the sales are made, but rather upon the relationship between the sales and the states' interest in the price of gas as a factor in conservation policy. Under this test it is clear that the states do have the constitutional power to regulate sales such as Phillips' in aid of conservation.

The *Cities Service* case specified three criteria against which the constitutionality of state regulations having an impact on interstate commerce are to be tested. These three criteria are that the regulation not discriminate against or place an embargo on interstate commerce, that it safeguard an obvious state interest, and that the local interest at stake outweigh whatever national interest there might be in the prevention of state restrictions (340 U.S. at 186-187).[52] No question of discrimination or an embargo would be raised by regulation of Phillips' sales.

Co., 338 U.S. 464, 472, to the effect that the gap closed by the Act is to be measured by the status of constitutional law at the time of the passage of the Act, and not by its present status. The apparent purpose of the Court of Appeals' statement was to indicate doubt that the Cities Service case would have been decided the same way prior to 1938. There is no merit in the suggestion of the Court of Appeals. For one thing, it is clear from the context of the East Ohio case that this Court was speaking of the power of consuming states to impose utility-type regulation on transmission companies. In addition, as we have pointed out above, the Cities Service case rests on principles preceding the Natural Gas Act by decades. See note 32, pp. 40-41.

[52] These criteria may be compared with the tests applied to determine the validity of state taxation measures under the commerce clause. See for example Michigan-Wisconsin Pipe Line Co. v. Calvert, Nos. 198-201, this Term, 22 U. S. Law Week 4115 (February 8, 1954); and see Freeman v. Hewit, 329 U. S. 249, 252-253. The decision in the *Michigan-Wisconsin Pipe Line Company* case held invalid a Texas tax levied on the taking of natural gas by two of the interstate transmission companies supplied by Phillips. Because of the differences in the issues involved and because the

The "legitimate local interest" which is at stake in the case of Phillips' sales is precisely the same as in the *Cities Service* case. The balancing between the local interest and the national interest depends upon a number of factors which are specified and discussed in the *Cities Service* case. These factors, which are set forth in the following paragraph of the Court's opinion, apply to sales at the end of gathering to the same degree as they apply to sales at the well-head. The Court stated (340 U.S at 187-188):

> "We recognize that there is also a strong national interest in natural gas problems. But it is far from clear that on balance such interest is harmed by the state regulations under attack here. Presumably all consumers, domestic and industrial alike, want to obtain natural gas as cheaply as possible. On the other hand, groups connected with the production and transportation of competing fuels complain of the competition of cheap gas. Moreover, the wellhead price of gas is but a fraction of the price paid by domestic consumers at the burner-tip, so that the field price as herein set may have little or no effect on the domestic delivered price. Some industrial consumers, who get bargain rates on gas for 'inferior' uses, may suffer. But strong arguments have been made that the national interest lies in preserving this limited resource for domestic and industrial uses for which natural gas has no completely satisfactory substitute. See generally, Federal Power Commission, Natural Gas Investigation (1948); *Federal Power Comm'n* v. *Hope Natural Gas Co.*, 320 U.S. 591, 657-660 (1944) (dissenting opinion). Insofar as conservation is concerned, the national interest and the interest of producing states may well tend to coincide. In any event, in a field of this complexity with such diverse inter-

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tax was levied on the interstate transmission companies and not on the operations of Phillips, the decision is not directly relevant here. It should be noted, however, that in deciding that case the Court distinguished between Phillips' local activities of production, gathering and processing on the one hand and the predominantly interstate function of the transmission companies on the other.

ests involved, we cannot say that there is a clear national interest so harmed that the state price-fixing orders here employed fall within the ban of the Commerce Clause. *Parker* v. *Brown, supra; Milk Control Board* v. *Eisenberg Farm Products, supra.* Nor is it for us to consider whether Oklahoma's unilateral efforts to conserve gas will be fully effective. See *South Carolina Highway Dept.* v. *Barnwell Bros., supra* at 190-191."

This Court itself has recognized that to be effective, regulation of the kind upheld in the *Cities Service* case cannot be confined to sales at the well-head but must extend to sales made elsewhere in the producing field. In *Phillips Petroleum Co.* v. *Oklahoma,* 340 U.S. 190, 192, this Court pointed out that "in a field which constitutes a common reservoir of gas" the state "must be able to regulate the operations of all producers or there is little point in regulating any."[53] The Corporation Commission of the State of Oklahoma construed the order involved in the *Cities Service* case as not confined to transactions at the well-head but as also prescribing a price to be realized in sales made during or upon the conclusion of gathering.[54]

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[53] This case involved the application to Phillips' activities in the Guymon-Hugoton Field (including the transactions with Panhandle Eastern Pipe Line Company which are involved in the instant case) of the Oklahoma order upheld in the Cities Service case. The attack on the order was based solely on the due process clause of the Fourteenth Amendment; the question of the validity of the order under the commerce clause, which was raised in the Cities Service case, was therefore not before the Court in the Phillips case.

[54] The order of the Corporation Commission of Oklahoma construing its regulation as applicable to Phillips' operations in the Guymon-Hugoton Field, even though Phillips did not sell gas at the wellhead but sold after gathering and processing, appears in the Record (Ex. 120A; R. 1277-1283).

The order of the Corporation Commission now in effect reads in part as follows (Order No. 26906, issued August 8, 1952):

"1. That no gas shall be produced from any well located in the Guymon-Hugoton Field of Oklahoma except at a price of

The opinion of the Court of Appeals in this case seems to rest on the belief that to the extent that any state regulatory order of this kind applies to sales made at the end of gathering, the order is unconstitutional. The *Cities Service* case makes it clear that this belief is erroneous. This error is crucial to the court's conclusion that sales made at the end of gathering are subject to federal regulation; on the court's reasoning, that result followed only because the states have no power to regulate the sales for any purpose. Hence even if we accept *arguendo* the court's construction of the statute, its conclusion that sales made as the culminating step in gathering are subject to federal regulation is wrong because that conclusion rests on a basic error as to the extent of state power.

B. THE COMMISSION CORRECTLY FOUND THAT PHILLIPS' MOVEMENT, PROCESSING AND SALES OF NATURAL GAS ARE ALL A PART OF THE BUSINESS OF PRODUCING AND GATHERING

The Commission's ultimate finding of fact on the nature of Phillips' business follows (R. 1742):

> "The facts of this case convince us that we have no jurisdiction over Phillips. We find that its operations, so far as relevant, consist of production and

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not less than 9.8262¢ per thousand cubic feet if sold at the wellhead or on the lease or drilling unit from which produced, or a price equivalent to not less than 9.8262¢ per thousand cubic feet at the wellhead if sold off the lease or drilling unit or otherwise utilized. If the gas is sold during or upon conclusion of gathering without being processed for the extraction of liquid hydrocarbons, the price shall be not less than 9.8262¢ per thousand cubic feet plus the reasonable cost of gathering. If the gas is processed for extraction of liquid hydrocarbons and sold during or at the conclusion of gathering, the price for the residue gas shall be not less than 9.8262¢ per thousand cubic feet."

As a basis for this order the Corporation Commission of Oklahoma found: "That only a small portion of the gas produced in said Field [Guymon-Hugoton] is actually sold or delivered at the wellhead * * *"

gathering, or incidents of or activities related to these functions thus requiring their inclusion within the Act's exemption."

This finding of fact rests upon the Commission's careful appraisal of all relevant aspects of Phillips' activities. The Commission took into account the pattern and characteristics of the lines (including their length and size) by which the gas is brought to the point of final commingling in the processing plants; the character and purpose of the processing; the physical relationship between the gathering, the processing, and the delivery and sale to the interstate transmission line; and the economic relationship existing between all of Phillips' activities, including the sales, and the business of producing and gathering gas.

The evidence established, beyond controversy, that Phillips' gas business consists solely of the following operations: Phillips produces gas and buys it from other producers; it collects the gas, so produced or purchased, by systems of converging pipe lines, in plants where the gas is commingled and processed to remove impurities and liquid hydrocarbons. Part of the gas is then returned by Phillips to producers from whom it was originally bought, part is sold for local use, and part is sold to the interstate transmission companies. The gas sold by Phillips to the interstate transmission companies is delivered to those companies through short pipe outlets or exhausts that carry the gas to points within or at the borders of the yards of Phillips' processing plants. All of these activities are carried on in the producing fields. Phillips does not own or operate an interstate transmission line and is not affiliated with any company that does.[55]

These facts alone were sufficient to support the Commission's finding that all of Phillips' activities, including its sales to the transmission companies, were a part of the

[55] No serious contention was made before the Commission or in the court below that Phillips was an interstate transmission company in the sense of being engaged in the business of transporting gas from the producing fields to consumer markets.

business of producing or gathering. In addition, however, the Commission's finding was supported by evidence, given by witnesses experienced in the oil and gas industry, with respect to what "production or gathering" comprehends in terms of business practices and economic function.[56]

That evidence covered all stages of Phillips' gas activities, including its sales to the transmission companies. There was proof that all of Phillips' lines were regarded by those who operated them in the field, and by the industry generally, as gathering lines and as constituting gathering systems (R. 146-148, 190, 205-206, 270-273, 364-374, 644-672). There was testimony that gathering comprehends both the collection of gas from wells to a point or points in or near the field and the preparation or processing of the gas for market; that historically it has been the practice in the oil and gas industry for independent producers and gatherers to process gas as a part of their business; that Phillips had been processing gas as a part of its gathering business since 1921, and that Phillips' processing facilities have always been classified by Phillips, and regarded in the industry, as a part of its gathering systems (R. 311-315, 364-369, 691). There was also evidence that gathering was conducted for the specific purpose of disposing of the gas, whether by use or sale (R. 310-311, 324-325, 368-369, 691-692, 699-701, 701-702), and that sale at the processing plant was a part of gathering (R. 636, 677).

The Commission's findings embody the considered judgment of the administrative agency authorized by Congress to apply the general words of the statute to particular situations. The findings have a reasonable basis in law and are supported by substantial evidence. Under well established rules of judicial review they should be

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[56] It was proper for the Commission to receive and to be guided by evidence of this kind. See O'Hara v. Luckenbach S. S. Co., 269 U.S. 364; United States v. Maher, 307 U.S. 148, 155; Order of Railway Conductors v. Swan, 329 U.S. 520, 525; Carter v. Liquid Carbonic Pacific Corporation, 97 F. 2d 1 (9th Cir. 1938); Roberts v. Tennessee Coal, Iron & R. Co., 255 Fed. 469 (5th Cir. 1919), cert. denied 250 U.S. 659.

accepted by the courts.[57] *Gray* v. *Powell*, 314 U.S. 402, 413; *United States* v. *Wabash R. Co.*, 321 U.S. 403, 408; *Cardillo* v. *Liberty Mutual Co.*, 330 U.S. 469; *National Labor Relations Board* v. *Hearst Publications, Inc.*, 322 U.S. 111, 130-131; *Unemployment Compensation Commission of Alaska* v. *Aragon*, 329 U.S. 143, 153-154.

In the court below the Commission's findings were attacked on the ground that because of the special or peculiar nature of certain of Phillips' operations the Commission could not properly find that those operations were part of production or gathering. As has been seen, the Court of Appeals purported to dispose of the case on a basis that did not require it to consider these attacks on the Commission's findings. It nevertheless appears that the court below, in addition to misconstruing the statute, accepted certain of the attacks made on the Commission's findings.

In holding that Phillips' sales were made after production and gathering were "complete" the court below said (R. 1842):

> "Thus Phillips sells the gas after the time and beyond the place at which production and gathering are complete and after processing has intervened. For example, gas processed in one Phillips plant then flows about 240 feet through a Phillips pipeline to sales meters owned and operated by Phillips, where it is sold and delivered to Panhandle Eastern Pipe Line Company."

In this passage the court below first assumes that processing cannot be a part of the business of producing or gathering and then rests its conclusion that Phillips' sales were made after production and gathering were "complete" at least in part on that assumption. Similarly, the court, although not explicitly holding that the movement of the gas for 240 feet through the plant outlet is interstate transpor-

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[57] Section 19(b) of the Natural Gas Act provides that on judicial review "The findings of the Commission as to the facts, if supported by substantial evidence, shall be conclusive."

tation in the statutory sense, regarded this movement as not being part of production or gathering.

In another portion of the opinion, the court below rejected the Commission's findings on the nature of the lines by which Phillips moves gas into its processing plants. To support its conclusion that Phillips' sales are not subject to any kind of regulation by the producing states the court below cited *Federal Power Commission* v. *East Ohio Gas Co.*, 338 U.S. 464, for the proposition that when the Natural Gas Act was passed it was established that state regulatory power could not reach "high pressure trunk lines". In a footnote the court went on to observe that Phillips' sales, unlike the sales in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, "are made after the gas has been gathered into trunk lines" (R. 1847). The words "high pressure trunk lines" were used in the opinion in the *East Ohio Gas Co.* case to describe the interstate transmission lines that carry gas from producing fields to consumer markets. It is therefore difficult to avoid the conclusion that in this passage the court below, contrary to the findings of the Commission, determined that all of the lines leading into the processing plants are not gathering lines but are in all significant respects just like interstate transmission lines.[58] The disregard of the Commission's findings in this instance is of particular importance because it lies at the base of the argument on constitutional law by which the court below supported its construction of the statute.

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[58] It is not clear whether the court below meant to determine as a fact that Phillips' lines were "high pressure" lines. If so, the determination disregards the findings in the Commission's opinion with respect to the pressures in the different lines. The record does not disclose any pressures in the lines leading into the processing plants which could be described as "high". In fact the findings and the record show that much of the gas moves through the lines and the processing plants at well-head pressure (R. 1692, 1695, 1706).

In these instances the court below improperly disregarded the Commission's findings of fact. To the extent that the court was assuming to decide these questions as a matter of law it was acting on an erroneous construction of the statute. The words "production or gathering" describe a business or economic function. Whether the words cover particular processing activities, particular movements of gas, or particular pipe lines, depends upon the relationship existing between the processing, the movements, or the pipe lines, and the business or function described by the statutory word. The determination of that relationship turns on questions of fact, not questions of law.[59]

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[59] For example, to say broadly that as a matter of law processing can never be a part of production or gathering would disregard the realities of the oil and gas business. Natural gas must be processed if it is to be effectively and economically used. In the historical development of the industry it was normal for the person who produced and gathered to do the necessary processing and to sell the residue gas as a part of his business (R. 365-366). In the FTC Report (p. 115) it was noted that the practice had grown up of "scrubbing or washing the gas at important gathering centers in the field whereby certain amounts of so-called 'natural gasoline" are recovered and sold, and any dirt, dust and water vapor are removed." The report also pointed out that the extraction of by-products from natural gas was performed both by producing interests and by transmission interests (*id.* 55).

The functional status of processing is a question to be decided on the facts of particular cases. In some cases, as here, it is a part of the business of producing and gathering. In other instances processing may be a part of the business of an interstate transmission company. In others it may be unrelated to either the business of producing or gathering, or the business of interstate transmission.

Similarly, since all interstate movement is not "transportation" in the statutory sense (see pp. 25-26, *supra*), the determination whether particular movement is a part of gathering must be based on an appraisal of the relevant facts. It is the duty of the Commission to determine in each case in which the question arises at what point in the interstate movement of gas "gathering" ends and "transportation" in the statutory sense begins.

Congress intended that the Commission should decide these questions of fact as they arise in particular cases on the basis of all of the relevant facts. Such questions are peculiarly matters that require the exercise of the "expert, experienced judgment" of the regulatory agency. Compare *Gray* v. *Powell*, 314 U.S. 402, 413. In this proceeding the Commission carefully exercised that judgment. It determined on all the facts that Phillips' processing and the movement of gas to the plant outlets were both part of the business of production and gathering (R. 1743). Similarly, it found that all of the lines leading to the processing plants were gathering lines forming a part of Phillips' gathering business and were not transmission lines. To the extent that the court below rejected these findings and substituted its own determinations of fact, it committed error which vitiates its conclusions of law.

III

The decision of the Federal Power Commission that sales such as those of Phillips are not subject to federal regulation is confirmed by its finding that its regulation of such sales would be inconsistent with state conservation programs

The Commission's decision in this case rested in the first instance, as we have seen, on its holding that the Natural Gas Act does not authorize federal regulation of the business of producing and gathering and on its finding of fact that Phillips' sales were made as a part of the business of producing and gathering. In addition, however, to the evidence relating to the nature of Phillips' operations the Commission also received evidence bearing on the relationship between federal regulation of the sales of independent producers or gatherers and state regulatory measures and policies. On the basis of that evidence the Commission found that regulation of sales such as those of Phillips would lead to a substantial interference with the regulatory functions of the producing states (R. 1745).

This finding, although not necessary to support the Commission's decision that Phillips' sales were not subject to federal regulation, confirms the grounds on which the decision rests.[60]

In the consideration of the legislative history we have seen that Congress did not intend to subject to federal regulation any part of the business of independent producers and gatherers. Congress was concerned solely with evils found to exist in the conduct of the business of transporting gas interstate from producing fields to consumer markets. But, even in the regulation of the interstate transmission business, Congress was careful to provide that the statute should not apply to production or gathering. It did this because it recognized that any direct regulation of production or gathering would extend federal authority into an area in which its exercise would interfere with the legitimate regulatory functions of the states. See *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, 690. The Commission's finding that federal regulation of field sales by independent producers and gatherers would interfere with these state functions shows that extension of federal authority to those transactions would necessarily create the conflict which, even in the regulation of the interstate transmission companies, Congress intended to avoid. The finding, therefore, together with the evidence that supports it, shows that Congress could not have intended to provide for federal regulation of sales such as those of Phillips.

Much of the evidence that supports the Commission's finding was presented by the intervening states of Oklahoma, Texas and New Mexico and was provided in large part by the testimony of members of the regulatory agen-

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[60] In its opinion the Commission introduced the subject of interference with state regulatory functions by saying: "In addition to the conclusions we have already reached, the evidence in this case supplies still another type of barrier to our regulation of Phillips' sales" (R. 1745).

cies of those states.[61] The nature of the evidence is disclosed by the Commission's findings (R. 1746-1747):

> "In varying degrees, the evidence clearly shows that our regulation of sales made in the process of production and gathering would, by its very nature, be inconsistent or constitute a substantial interference with such regulation of producers and gatherers by Oklahoma, Texas, and New Mexico. To cite one example, there is a direct relation between price and conservation, an important concern in the regulation of each of the States. Even though a producer be allowed a reasonable return on actual legitimate investment, our fixing of maximum rates for his sales would run counter to State conservation efforts, through the fixing of minimum well-head prices or otherwise, to insure maximum recovery of gas prior to abandonment of the well. For the higher the profit, the longer it is economical to operate the well. And to the extent that the producer could obtain a profit higher than that permissible under our maximum-price regulation, the longer abandonment would be postponed. Similarly, the higher the price paid to the producer and gatherer, the easier it becomes for the State to discourage by regulation the flaring of gas and to encourage the gathering and marketing of such gas. This is particularly true as to casinghead gas."

This conclusion that federal regulation would by its very nature be inconsistent with the state programs is supported by substantial evidence. It represents the position of all of the agencies directly concerned—the Federal Power Commission, the agency that would administer and enforce federal regulation, and the regulatory bodies of Oklahoma, Texas and New Mexico. The state regulatory

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[61] Among the witnesses were W. J. Murray, member of the Railroad Commission of Texas, Jack K. Baumel, Chief Engineer of the Texas Commission; Richard R. Spurrier, New Mexico State Geologist and member of its Oil Conservation Commission; Ray C. Jones, member of the Oklahoma Corporation Commission; and Elmer Capshaw, the Oklahoma Commission's Petroleum and Natural Gas Engineer (R. 375-592, 602-619).

authorities and the Commission, all experienced in the industry and familiar with the respective character and purpose of state and federal gas regulation, are best qualified to measure the consequences that would follow the extension of Commission authority to cover Phillips' sales.

As the record shows, Texas, Oklahoma and New Mexico have comprehensive programs covering the production and gathering business to prevent waste of natural gas and to encourage efficiency in its production. It is by such programs, designed to recover the maximum amount of gas (and oil) from the fields, that the states "can assure for the longest period of time an abundant supply to the consumers and at the lowest price" (R. 435). In short, the programs are based on the long-term common interest of both consumers and producers in conserving a nonreplaceable wasting resource (R. 428-430, 436, 459-460).

The programs vary in some aspects, reflecting the individual state's decisions as to the measures best suited for its particular problems. Each state's regulatory pattern, however, includes such conservation measures as proration, allocation and interconnection of wells; unitization, in which a common pool is drilled and operated as a unit; requirements as to well spacing; avoidance of premature abandonment of wells; full exploitation of marginal acreage; maximum utilization of casinghead gas; and bans against flaring or other improper uses of gas.

As the state officials emphasized, the effectiveness of these measures depends on a satisfactory level of field prices for natural gas. The record reveals that the price realized for gas in the producing fields has a direct, immediate and potent effect on conservation.[42] All phases of the state programs, starting with the initial problem of stimulating exploration and drilling to increase gas reserves, are affected by what prices are received by the producer and gatherer in the field. If gas is priced too low,

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[42] R. 429-431, 438-440, 442-448, 454-455, 457-459, 513, 516-519, 523-526, 532, 546-549, 552-553, 559-560, 566, 604-607, 609-614.

exploration is discouraged (R. 459, 517, 529-530, 569). The same direct relationship between the effectiveness of the state conservation programs and the price of gas was shown to exist at other stages of the business of production and gathering. Adequate financial incentive is essential if producers and gatherers are to discover, develop, produce and gather natural gas in ways avoiding physical and economic waste.

The ways in which federal regulation of prices for gas in the field would interfere with the various state measures can be briefly illustrated.

All three states have unitization programs. Under these programs all or a large portion of a common pool is operated as a unit, regardless of the number of owners of interests in the pool. In this way, maximum recovery of oil and gas can be realized. Oklahoma has a compulsory field unitization law.[63] Texas and New Mexico regulations provide for voluntary agreements for unit operation.[64] In both Oklahoma and Texas one of the legal requirements for unitization is that the value of the additional oil and gas to be recovered must exceed the added cost of that method of operation.[65] Thus, the price to be received for the gas may alone determine whether unitization of a particular field will be effected. If the Federal Power Commis-

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[63] Oklahoma Stat. Tit. 52, §§ 287.1-287.15 (1951). An earlier version of this statute was upheld in Palmer Oil Corp. v. Amerada Corp., 343 U.S. 390.

It was under this authority that the Oklahoma Corporation Commission ordered the establishment of the West Edmond Hunton Lime unit in which Phillips, as a member of the unit, is the owner of an undivided interest in the gas sold by the unit to Cities Service. See p. 9, *supra*.

[64] Vernon's Civil Stat. of Texas (1925), Art. 6008b; New Mexico Stat. (1951 Supp), § 69-213½(e), §§ 8-1138, 1139. See also Rule 507 of New Mexico Oil Conservation Commission.

[65] Oklahoma Stat. Tit. 52, § 287.3 (1951); Vernon's Civil Stat. of Texas (1925), Art. 6008b, § 1.

sion should regulate the price received by independent producers and gatherers, the price set by the Commission—fixed by an agency operating under a statute in no way related to conservation interests—could by itself determine whether unit operation of particular fields would be possible.

In no area is the relationship of price to conservation of gas more strikingly apparent than in the instance of casinghead gas, which is produced only as and when oil is produced. Unless casinghead gas is gathered and marketed immediately, it is lost either by flaring or by being allowed to escape. Billions of cubic feet have been so wasted.[66] The extent to which the gas will be gathered and utilized relates most directly to the price for gas, for utilization of casinghead gas involves considerable expense. The gas comes from oil wells that are often widely dispersed and it is usually produced in small volume at each well. Expensive processing is frequently necessary to separate the gas from the oil. Consequently, extensive gathering systems are required to link together the wells and collect and process the gas (R. 387-390, 445).

The states have made substantial progress in reducing the wastage of casinghead gas. In Texas alone, approximately three billion cubic feet per day which formerly would have been wasted are now utilized (R. 389-390). The success of these state efforts is dependent on prices for gas that will make operations to utilize casinghead gas economically feasible (R. 438, 449, 451).

Similarly, other devices designed to insure high recovery of gas in the field, such as well spacing and the prevention of premature abandonment of wells, are basically affected by the price of gas (R. 515-516, 566, 606, 609-610,

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[66] As recently as 1945 a fifth of the Nation's total production of gas was blown away in the air or burned at the well-head. Natural Gas Investigation, Federal Power Commission, Docket G-580, Report of Commissioners Smith and Wimberly (United States Government Printing Office 1948) p. 114.

618-619). As the state officials emphasized in the Commission proceedings, their agencies are acutely aware of the physical and economic waste that occurs when prices for gas are inadequate to permit the effective operation of these and other conservation methods, and recognize that the effectiveness of their programs is basically dependent on the prices realized in the field (R. 431, 458, 524-525, 547-549).

Up to now, the States of Texas and New Mexico have not found it necessary to fix minimum prices in the field. Their present policy is to permit field prices of gas to be fixed by competition rather than by regulation (R. 426-427, 431, 457-461, 464-465, 556-557). Oklahoma, however, has fixed the minimum field prices to be received by producers as a condition to the production of gas in the Guymon-Hugoton Field (Exs. 119, 120, 120A; R. 1246-1283). See pp. 66-67, *supra*. If Texas or New Mexico determines that competitive forces do not result in prices which will permit the realization of their conservation objectives, these two states could adopt price regulation comparable to that now enforced by Oklahoma.[67]

Federal regulation of the field prices received by companies such as Phillips would necessarily conflict with the price programs, policies and regulatory measures of the producing states. If, as in the case of Oklahoma, a state exercised its right to fix minimum prices in the producing field, the assertion of federal power over the same subject matter would create a situation in which two different regulatory agencies would be attempting to regulate the

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[67] The evidence is that the New Mexico Commission now has such power (R. 532). Both New Mexico and Texas have common purchaser statutes authorizing their respective commissions to require mandatory taking and purchasing of gas in connection with proration. New Mexico Stat. (1951 Supp.) § 69-214(b); Vernon's Civil Stat. of Texas (1925), Art. 6049a, §§ 8, 8a, 8aa and 8b. See R. 457. The Oklahoma price orders sustained in the Cities Service case were grounded on essentially the same kind of statutory provision.

same transactions. But even if the states should not assert their power to fix minimum field prices, as is now true of Texas and New Mexico, federal regulation of field prices would still conflict with state power and with programs and policies adopted by the states.

As we have seen, Texas and New Mexico have adopted regulatory policies under which measures for the conservation and efficient production of gas have been developed on the basis of prices set in the field by competitive factors. These two states have decided that the free play of competitive forces will produce a price level that will encourage producers and gatherers to develop gas reserves and to minimize waste (R. 426-427, 431, 457-461, 464-465, 556-557). Federal regulation of prices in the producing fields of these two states would substitute a regulated price level for this competitive price level which the two states have determined is best adapted to protect their legitimate interests in conserving natural gas. In addition, such regulation would necessarily conflict with the power of the states to change their policies and adopt price orders such as Oklahoma has promulgated.

Although it thus appears that the producing states to some degree follow different policies toward field prices the primary concern of all of them lies in the conservation of natural gas. The rate-making standards which the Natural Gas Act establishes to guide the Federal Power Commission in the exercise of its authority do not take these conservation interests into account. The Commission itself recognized this fact in its opinion and adverted to the contrast between its statutory duty "to limit rates to an amount sufficient to recover costs plus no more than a reasonable return on actual legitimate investment" with the quite different interests of the producing states in conservation policies and programs (R. 1745-1746).

The various aspects of the state programs, briefly summarized above, have been evolved within a framework in which prices, determined in the case of Oklahoma by ex-

plicit minimum price order and in the case of Texas and New Mexico by competitive forces, are at levels at which increasingly effective conservation programs have been evolved. To replace these price levels with rates determined under the standards established by the Natural Gas Act—designed as we have seen for different purposes and based on other standards—would necessarily disrupt the state programs.

In addition to the interference which would result from the imposition of federal regulation because of the basic importance of price to the effectiveness of the state programs, Federal Power Commission regulation of Phillips' sales or other aspects of producing and gathering operations would be disruptive in still another vital respect. Various aspects of the state conservation programs depend for their effectiveness on maintenance of maximum freedom in the interchange of gas among producers and the continuing cooperation of producers in the states' efforts to promote the efficient use of gas and to prevent waste. Federal regulation would seriously interfere with these state programs.

For example, proration programs, one of the basic conservation devices utilized by all three states, would be handicapped. Under the proration statutes, the state regulatory agency fixes, on the basis of market demand, the amount of production that will be allowed in a field in a particular period.[68] Each producer is given "an allowable", which is his prorationed share of the total production. One producer may have purchasers for more than his allowable, while others may have allowable production beyond that needed to service their customers. It is therefore necessary to have a free interchange of gas among the producers in the field so that the total market

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[68] Vernon's Civil Stat. of Texas (1925), Art. 6008, §§ 10-20, Art. 6008a, Art. 6049d, §§ 4-13; New Mexico Stat. (1951 Supp.), §§ 69-212, 213, 213½; Oklahoma Stat. Tit. 52, § 239 (1951).

demand for gas can be effectively met. In practice, a producer and gatherer whose allowable production is insufficient to meet his customers' requirements will frequently have to establish connecting lines to purchase from producers who have excess allowable production (R. 382, 470-471, 511-512, 561-562). If the producer and gatherer were under the jurisdiction of the Federal Power Commission, the state efforts in furthering these interconnections would be frustrated by the reluctance or outright refusal of producers to connect with the lines of any one subject to federal regulation because of fear that by doing so they might themselves be subject to federal rate regulation (R. 472-473).

For similar reasons there would be clear interference with state measures to conserve casinghead gas. Thus, the Texas Railroad Commission has found that when it seeks to have flared casinghead gas utilized by having it turned into the line of a company subject to Federal Power Commission regulation, producers strongly resist such efforts because of fear that their sales might be subjected to federal regulation (R. 417-418).

All of these aspects of the state regulatory programs were fully developed in the evidence. On this record, the Commission found that if it attempted to regulate field sales by independent producers and gatherers there would be serious interference with the regulatory programs of the producing states. This conflict might take the form of a direct collision between particular orders, as for example, by a federal rate regulation clashing with a price order such as the one adopted by Oklahoma. Quite apart from such specific conflicts, the exercise of federal jurisdiction over field prices would produce continuing interference, more general but equally direct, with state conservation and related programs. Under federal regulation, standards inherently inconsistent with the state programs and policies would be applicable to the activities and transactions now subject to state authority. The inevitable re-

sult of this inroad by federal authority, however exercised, would be the disruption of the state conservation programs.

This finding was attacked in the court below on a variety of grounds that are all without merit. In part the attacks rested on the assumption that to establish a relevant conflict it was necessary to show a clash between particular price orders. This assumption is erroneous; as the *Interstate* case makes clear the conflict which Congress wished to avoid included any conflict between federal rate regulation and the power of the states "to regulate the physical production and gathering of natural gas". 331 U.S. 682, 690. In part the attacks also rested on the assumption that the states' conservation powers do not permit them to regulate sales such as those made by Phillips, an assumption which, as we have shown, cannot be reconciled with the decision of this Court in the *Cities Service* case. See pages 63-66, *supra*. The Commission's finding was also attacked on the ground that there could be no conflict because federal regulation of the rates of interstate transmission companies had never conflicted with state conservation measures. This contention overlooks the fact that in regulating interstate transmission companies the Federal Power Commission has never directly regulated field sales of natural gas. On the contrary, it has always allowed the interstate transmission companies as an operating expense the full cost of the gas that they purchase from independent producers and gatherers. Since the rate base of interstate transmission companies consists largely of their transmission facilities, public utility regulation of the rates charged by those companies has had only an indirect effect on their producing and gathering activities. See pages 51-56, *supra*.

Nor is there merit in the suggestion made below that federal and state regulation should be applied to the same transactions, or in the same general area of activity, until a direct clash occurs between two incom-

patible orders. The authority of the states over production and gathering cannot be properly administered if it is to turn on the content of, and shifting modifications in, federal regulation. In this sensitive area involving the relationship between federal and state authority, the state regulatory programs cannot be effective if they are constantly subject to nullification by federal regulation.[60] Nothing but the most explicit statutory command could justify an interpretation of the statute that would lead to such results. There is nothing on the face of the Natural Gas Act or in its legislative history that can be used to justify the assertion that the application of the "production or gathering" clause of Section 1(b) is to depend upon day-to-day conflicts between state and federal regulatory authority.

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[60] As this Court observed in Cloverleaf Butter Co. v. Patterson, 315 U.S. 148, 169, "Our duty to deal with contradictory functions of state and nation, . . . calls for the utmost effort to avoid conclusions which interfere with the governmental operations of either. Nothing could be more fertile for discord, however, than a failure to define the boundaries of authority. Clashes may and should be minimized by mutual tolerance; but they are much less likely to happen when each knows of the limits of its responsibility."

See also Bethlehem Steel Co. v. New York State Labor Relations Board, 330 U.S. 767, 775-776:

"But the power to decide a matter can hardly be made dependent on the way it is decided.

* * *

"If the two boards attempt to exercise a concurrent jurisdiction to decide the appropriate unit of representation, action by one necessarily denies the discretion of the other. The second to act either must follow the first, which would make its action useless and vain, or depart from it, which would produce a mischievous conflict. The State argues for a rule that would enable it to act until the federal board had acted in the same case. But we do not think that a case by case test of federal supremacy is permissible here."

The Commission, measuring its regulatory authority and policies against the programs and policies of the producing states, concluded that any federal regulation would by its very nature conflict and seriously interfere with state authority. This factual determination is strong confirmation of the Commission's decision that federal regulation of sales such as those made by Phillips would defeat the intent of Congress.

IV

THE ASSERTION THAT EXTENSION OF FEDERAL REGULATORY POWER TO THE ACTIVITIES OF INDEPENDENT PRODUCERS AND GATHERERS IS REQUIRED TO PROTECT CONSUMERS IS WITHOUT BASIS IN FACT AND IN ANY EVENT RAISES QUESTIONS OF LEGISLATIVE POLICY THAT MAY APPROPRIATELY BE CONSIDERED ONLY BY CONGRESS

Before the Commission and in the court below the advocates of federal regulation relied heavily upon the assertion that regulation of field sales made by independent producers and gatherers is necessary to protect consumers against excessive prices. This assertion has no basis in fact. It was not true in 1938 when the Natural Gas Act was passed and it is not true today that consumers require federal protection against the prices charged by independent producers and gatherers.

Passing for the moment the lack of factual basis for the argument, it should be noted that it is an argument that relies primarily on considerations of alleged economic necessity and public policy. Countervailing considerations of economics and public policy are advanced by those who believe that in the long run the public interest will not be served by fixing field prices for natural gas on a public utility basis. The producing states, for example, assert that federal regulation of field sales will interfere with their conservation programs, will discourage investment, and, in the long range, will injure the economic interest of

both the producing and consuming areas by reducing the supply of gas available for distribution at fair prices.

These conflicting contentions represent a clash between the interests of producing states and the asserted interests of those persons who believe that the field prices of natural gas should be fixed at the lowest levels consistent with the constitutional prohibition against confiscation. The Natural Gas Act does not represent a legislative determination of this conflict. During the deliberations which resulted in the passage of the Act, it was not suggested to Congress that federal regulation of independent producers and gatherers was necessary to protect the interests of consumers. On the contrary, Congress was led to believe that any injury threatened to those interests could be prevented by regulation of the charges levied by the interstate transmission companies for the service they performed in transporting gas from the producing fields to consuming markets. It is for this reason that the legislative history of the Act was marked by no conflict between the producing states and the advocates of federal regulation such as has now arisen. Congress accordingly confined the legislation to the activities of the interstate transmission companies and protected the interests of the consumers by subjecting to federal regulation the charges levied by those companies.

The present conflict between the producing and consuming areas now arises because years after Congress considered the regulatory problem the representatives of some consuming areas assert that they require protection against the field prices charged by independent producers and gatherers. To the extent that they appeal to economic necessity and public policy, they are in effect asking the Commission and the courts to give them regulatory protection which they did not seek from Congress in 1938, which Congress did not then consider, and which Congress has never granted.

The facts presented to Congress at the time that it was considering the passage of the Natural Gas Act showed no

need for federal regulation of field prices charged by independent producers and gatherers. In the course of its investigation the Federal Trade Commission collected information about field prices and its report discusses this information (pp. 128, 198-208). The report points out that in 1934 the average well-head prices per m.c.f. were approximately 3¢ in Oklahoma, 2.2¢ in Texas and 2.7¢ in New Mexico. No suggestion is made in the report that these prices were excessive or that independent producers or gatherers were in a position to charge unreasonable field prices. Nor was there any suggestion in the Committee hearings, in the Committee reports or in the debates on the Natural Gas Act, that field prices were excessive or required federal regulation; as we have seen the attention of Congress was directed to the prices charged by the interstate transmission companies, particularly the prices charged at city gates.

It may be asserted, however, that since the passage of the Natural Gas Act, circumstances have changed and new conditions now make federal regulation of independent producers and gatherers necessary to protect the consumers against excessive rates. This assertion is both untrue in fact and inadmissible as a basis for construing the statute.

This Court, writing in 1950, in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U. S. 179, 186, and speaking of the Guymon-Hugoton Field, one of the fields involved in this case, pointed out that "the wellhead price of gas is but a fraction of the price paid by domestic consumers at the burner-tip, so that the field price, as herein set, may have little or no effect on the domestic delivered price." The spread between present price levels in the field and in consumer markets is demonstrated by recent Bureau of Mines statistics showing an average value of the well-head of 4.7¢ in New Mexico, 5.4¢ in Oklahoma and 6.2¢ in Texas, as against an average value at points of consumption in Wisconsin of $1.30 for residential use and $1.16 for commercial use, in Michigan of 85¢ for residential use and 77.5¢ for

commercial use, and in Missouri of 69.1¢ for residential use and 48.1¢ for commercial use.[70]

The most recent authoritative general examination of conditions in the gas industry was made in June 1952 by the President's Materials Policy Commission. In its report that body reviewed the price situation in the natural gas industry and pointed out that "natural gas is now selling in many markets, even at greater distances from the principal fields, at a substantially lower price energy wise than competitive fuels for industrial use, and either cheaper or at roughly a competitive price for domestic and commercial uses."[71] Over the period since the passage of the Natural Gas Act, this relative price advantage of natural gas to consumers over other fuels has been increasing rather than decreasing. From the period 1935-1939 to the year 1950, the average retail price of bituminous coal had increased by 91.4%, that of anthracite by 90.1%, that of fuel oils by 90.7% and that of manufactured gas by 9.7%, while over the same period the average price of natural gas to domestic and commercial consumers had declined by 7.0%.[72]

In the instant case the Commission did not attempt to inquire into the reasonableness of the prices charged in the field by independent producers or gatherers nor did it attempt to determine whether Phillips' prices were excessive. Consequently the record does not disclose all the considerations and factors that bear on the reasonableness of the prices now charged in the fields by independent

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[70] Mineral Market Report No. MMS 2229. Mineral Industry Surveys. United States Department of the Interior, Bureau of Mines, November 9, 1953.

[71] Resources for Freedom, Vol. III, The Outlook for Energy Sources, pp. 18-19 (United States Government Printing Office 1952).

[72] Stockton, Henshaw & Graves, Economics of Natural Gas in Texas, Bureau of Business Research, University of Texas (1952), p. 279.

producers and gatherers, including Phillips. There is, however, sufficient evidence in the record to negative any assertion that Phillips' prices are now excessive or exorbitant. The record shows that the prices Phillips charges the interstate transmission companies range from approximately 3¢ per m.c.f. to approximately 8¢ per m.c.f.[73]

Measured against the general change in the price level of all commodities, and taking into account the great increase in demand for natural gas, neither field prices generally, nor Phillips' prices specifically, reflect any substantial change in conditions that requires the exercise of federal regulatory power. But even if it should be assumed, contrary to fact, that some change in market conditions has occurred since the Natural Gas Act was passed, that assumption could serve only to emphasize the more basic point that the proposal to extend federal regulatory authority to the business of independent producers raises numerous and complex questions of legislative policy.[74] These

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[73] In the court below the State of Wisconsin indicated in its brief that for use at its executive residence and at the University of Wisconsin it pays a rate of approximately $1.07 per m.c.f. for gas purchased at 8.17¢ per m.c.f. by Michigan-Wisconsin from Phillips in the field (Brief for Petitioners, State of Wisconsin and Public Service Commission of Wisconsin, in the United States Court of Appeals for the District of Columbia Circuit, No. 11247, pp. 28-29).

[74] For some indication of the complexity and ramifications of the questions involved see, generally, Natural Gas Investigation, Federal Power Commission, Docket No. G-580, Report of Commissioners Smith and Wimberly (United States Government Printing Office 1948); The Outlook for Energy Sources, Vol. III, Resources for Freedom (Paley Report) (United States Government Printing Office 1952); Comment, Federal Price Control of Natural Gas Sold to Interstate Pipelines, 59 Yale L. J. 1468 (1950); Hearings before the Committee on Interstate and Foreign Commerce on H. R. 2185, 80th Cong., 1st Sess. (1947); Hearings before Subcommittee of the Committee on Interstate and Foreign Commerce on S. 734, 80th Cong., 1st Sess. (1947); Hearings before Subcommittee of the Committee on Interstate and Foreign Com-

problems arise both because of the nature of gas as a commodity and because of the nature of the business of producing and gathering.

Gas is a natural resource which is "elusive, exhaustible, and irreplaceable." [75] Once brought to the ground the gas cannot be stored and must be used or sold if it is not to be wasted. It often occurs in the earth in the presence of oil or intermixed with oil and in those circumstances the oil cannot be produced without also producing the gas. Because of these characteristics of gas, the producing states for many years have regulated its production and gathering in the interest of conservation, to prevent waste, and to promote the efficient utilization of this irreplaceable natural resource.

These eccentricities of the commodity are reflected in the characteristics of the business of producing and gathering natural gas. It is essentially a mining or an extractive business and differs in kind from the business of providing transportation services and other similar public utility operations. Success in the business depends upon finding and reducing to possession reserves of natural gas. That in turn depends upon continued capital expenditures for discovery, exploration and development, which are often fruitless. In terms of return on investment the results of these expenditures are therefore erratic, irregular and unpredictable. The ability and willingness of producers to make the expenditures depend upon the prices that they receive for natural gas in the field. The determination of the level of prices necessary to encourage these speculative expenditures for exploration and development raises problems quite different from those involved in fixing a maximum reason-

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merce on H. R. 79, 81st Cong., 1st Sess. (1949); Hearings before Subcommittee of the Committee on Interstate and Foreign Commerce on S. 1498, 81st Cong., 1st Sess. (1949).

[75] Mr. Justice Jackson, dissenting, in Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 628, 629.

able return on the rate base of the conventional public utility.[76]

Unlike the interstate transmission business, which even today is in the hands of a comparatively small number of pipe line companies, the business of producing and gathering natural gas is carried on by a large number of separate business units.[77] In 1946 and 1947 approximately 2300 independent producers or gatherers sold gas directly to natural gas companies (R. 728-731). In addition to these 2300 independent producers or gatherers, there are several thousand other independent producers of natural gas who do not sell directly to interstate transmission companies but whose prices affect the prices that the interstate transmission companies pay in the field. Any proposal to reg-

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[76] It has been suggested that in the case of the interstate transmission companies federal rate regulation, even though it has only an indirect impact on producing and gathering properties, has had the effect of discouraging investment for exploration and discovery. See Commissioner Smith concurring in the Matter of Northern Natural Gas Company, Docket No. G-1618, 94 P.U.R. (NS) 485, 507, 511-512 (1952).

There is a marked contrast between the expenditures for exploration and discovery made by independent producers and gatherers such as Phillips and the expenditures made for the same purpose by the integrated transmission companies. In the hearings before the Examiner, Phillips offered to prove the following facts: In 1949 the total exploration expenditures of all thirty-five natural gas companies operating in the southwest amounted to $3,980,000.00. In this year Phillips alone spent $24,700,000.00 in exploration for new gas and oil reserves (Ex. 149; R. 1292-1293). In 1950 Phillips expended $30,300,000.00 in exploration, including leasehold additions to carry on its oil and gas operations (*ibid.*). Included in these exploration expenditures were large sums for drilling exploratory wells, of which some 70 per cent in the past ten years were dry (Ex. 81; R. 349-350, 592-602, 1214). The evidence was excluded.

[77] In 1947 there were 115 natural gas companies subject to regulation by the Federal Power Commission. Statistics of Natural Gas Companies, 1947, p. v.

ulate the field sales of independent producers and gatherers requires consideration of the question whether all of these producers and gatherers should be regulated and if not, where the regulatory line should be drawn.[78]

Because oil rarely occurs without gas, the gas operations of independent producers and gatherers are frequently incidental or ancillary to larger operations in the petroleum industry and the physical facilities that they use in their gas operations are also an integral part of their petroleum business. It would hardly be possible to regulate field prices of natural gas without allocating investment and operating costs as between gas operations and petroleum operations. Even so, the regulation of field prices of natural gas would have a direct and substantial effect upon the oil operations of independent producers or gatherers because, no matter what allocation of investment and cost might be made for accounting purposes, their oil and gas activities are in fact carried on as a unit, and regulation of the return received on one part of the business would necessarily affect the return received on the other.[79]

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[78] It has been estimated that there are approximately 8000 independent producers of natural gas in the United States. See Report of Commissioners Smith and Wimberly, Natural Gas Investigation, Federal Power Commission, Docket No. G-580 (United States Government Printing Office 1948) p. 194. This number presumably includes the 2300 who are known to sell gas directly to interstate transmission companies.

Independent producers who do not sell directly to interstate transmission companies frequently sell to other independent producers or gatherers who do make such sales. The record in this case shows that Phillips buys from other independent producers a substantial part of the gas that it sells to the interstate transmission companies. There is an obvious and direct relationship between the prices Phillips charges the interstate transmission companies and the prices it pays these other independent producers.

[79] The relationship between gas and petroleum operations was recognized by the Commission in its decision in Columbian Fuel Corp., 2 F.P.C. 200 (1940). There the Commission, in disclaim-

The assertion that economic necessity and public policy now require federal regulation of the business of independent producers and gatherers necessarily poses the questions of policy that arise by reason of the facts briefly summarized in the preceding paragraphs. Congress was not attempting to regulate independent producers and gatherers when it passed the Natural Gas Act and therefore it did not have any occasion to consider those questions. Congress did not, for example, consider whether any regulation of sales made in the field by independent producers or gatherers could be effective to protect consumers unless it applied to all sales made by all such producers and gatherers, including those made at the well-head. It did not consider whether the conventional rate-making principles, developed in the regulation of public utility industries whose rate base consisted principally of physical facilities, are appropriate or suitable for application to the business of producing and gathering. There is nothing to indicate that Congress ever considered what effect the application of those standards might have on the willingness of independent producers and gatherers to continue to make expenditures for exploration and development or whether the application of those standards might adversely affect the supply of gas available to consumers. Congress did not attempt to weigh the short-term advantage of the small reductions in the consumer price that might be achieved by regulation of field prices against the long-range interest of the consumer in an adequate and

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ing authority to regulate sales made in the field by independent producers and gatherers, emphasized that assuming such jurisdiction

> "would lead the Commission into attempts to deal with the complicated interrelationship between the natural-gas industry and the oil industry. To make regulation of producers and gatherers effective under these circumstances would require statutory authority of much wider scope. . . ." (2 F.P.C. at 207)

assured supply of gas. Nor did Congress consider the regulatory problems that arise by reason of the fact that any regulation of field sales of natural gas must necessarily have a direct impact on the petroleum business of independent producers and gatherers.

Viewed in this light, arguments based on alleged economic necessity and public policy provide no basis for rejecting the construction of the statute followed by the Federal Power Commission in this case. On the contrary, the fact that Congress never considered the questions of legislative policy that those arguments raise supplies additional and substantial support for the conclusion that Congress never intended the Natural Gas Act to apply to the business of independent producers and gatherers.

CONCLUSION

For all the foregoing reasons the judgment of the Court of Appeals should be reversed.

Respectfully submitted,

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APPENDIX A

Pertinent Provisions of Statute

NATURAL GAS ACT OF JUNE 21, 1938, 52 STAT. 821-833; AS AMENDED FEBRUARY 7, 1942, 61 STAT. 459

Section 1. (a) As disclosed in reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.

(b) The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas [52 Stat. 821 (1938); 15 U. S. C. § 717 (1946)]

Sec. 2. When used in this act, unless the context otherwise requires—

* * *

(6) "Natural-gas company" means a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale.

* * *

Sec. 4. (a) All rates and charges made, demanded, or received by any natural-gas company for or in connection with the transportation or sale of natural gas subject to the jurisdiction of the Commission, and all rules and regulations affecting or pertaining to such rates or charges, shall be just and reasonable, and any such rate or charge that is not just and reasonable is hereby declared to be unlawful.

(b) No natural-gas company shall, with respect to any transportation or sale of natural gas subject to the juris-

diction of the Commission, (1) make or grant any undue preference or advantage to any person or subject any person to any undue prejudice or disadvantage, or (2) maintain any unreasonable difference in rates, charges, service, facilities, or in any other respect, either as between localities or as between classes of service.

(c) Under such rules and regulations as the Commission may prescribe, every natural-gas company shall file with the Commission, within such time (not less than sixty days from the date this act takes effect) and in such form as the Commission may designate, and shall keep open in convenient form and place for public inspection, schedules showng all rates and charges for any transportation or sale subject to the jurisdiction of the Commission, and the classifications, practices, and regulations affecting such rates and charges, together with all contracts which in any manner affect or relate to such rates, charges, classifications, and services.

(d) Unless the Commission otherwise orders, no change shall be made by any natural-gas company in any such rate, charge, classification, or service, or in any rule, regulations, or contract relating thereto, except after thirty days' notice to the Commission and to the public. Such notice shall be given by filing with the Commission and keeping open for public inspection new schedules stating plainly the change or changes to be made in the schedule or schedules then in force and the time when the change or changes will go into effect. The Commission, for good cause shown, may allow changes to take effect without requiring the thirty days' notice herein provided for by an order specifying the changes so to be made and the time when they shall take effect and the manner in which they shall be filed and published.

(e) Whenever any such new schedule is filed the Commission shall have authority, either upon complaint of any State, municipality, or State commission, or upon its own initiative without complaint, at once, and if it so orders, without answer or formal pleading by the natural-gas company, but upon reasonable notice, to enter upon a hearing concerning the lawfulness of such rate, charge, classification, or service; and, pending such hearing and the decision thereon, the Commission, upon filing with such schedules

and delivering to the natural-gas company affected thereby a statement in writing of its reasons for such suspension, may suspend the operation of such schedule and defer the use of such rate, charge, classification, or service, but not for a longer period than five months beyond the time when it would otherwise go into effect: *Provided,* That the Commission shall not have authority to suspend the rate, charge, classification, or service for the sale of natural gas for resale for industrial use only; and after full hearings, either completed before or after the rate, charge, classification, or service goes into effect, the Commission may make such orders with reference thereto as would be proper in a proceeding initiated after it had become effective. If the proceeding has not been concluded and an order made at the expiration of the suspension period, on motion of the natural-gas company making the filing, the proposed change of rate, charge, classification, or service shall go into effect. Where increased rates or charges are thus made effective, the Commission may, by order, require the natural-gas company to furnish a bond, to be approved by the Commission, to refund any amounts ordered by the Commission, to keep accurate accounts in detail of all amounts received by reason of such increase, specifying by whom and in whose behalf such amounts were paid, and, upon completion of the hearing and decision, to order such natural-gas company to refund, with interest, the portion of such increased rates or charges by its decision found not justified. At any hearing involving a rate or charge sought to be increased, the burden of proof to show that the increased rate or charge is just and reasonable shall be upon the natural-gas company, and the Commission shall give to the hearing and decision of such questions preference over other questions pending before it and decide the same as speedily as possible. [52 Stat. 822 (1938); 15 U. S. C. 717c (1946)]

* * *

SEC. 5. (a) Whenever the Commission, after a hearing had upon its own motion or upon complaint of any State, municipality, State commission, or gas distributing company shall find that any rate, charge or classification demanded, observed, charged, or collected by any natural-gas company in connection with any transportation or sale of natural gas, subject to the jurisdiction of the Commission,

or that any rule, regulation, practice, or contract affecting such rate, charge, or classification is unjust, unreasonable, unduly discriminatory, or preferential, the Commission shall determine the just and reasonable rate, charge, classification, rule, regulation, practice, or contract to be thereafter observed and in force, and shall fix the same by order: *Provided, however,* That the Commission shall have no power to order any increase in any rate contained in the currently effective schedule of such natural gas company on file with the Commission, unless such increase is in accordance with a new schedule filed by such natural gas company; but the Commission may order a decrease where existing rates are unjust, unduly discriminatory, preferential, otherwise unlawful, or are not the lowest reasonable rates.

(b) The Commission upon its own motion, or upon the request of any State commission, whenever it can do so without prejudice to the efficient and proper conduct of its affairs, may investigate and determine the cost of the production or transportation of natural gas by a natural-gas company in cases where the Commission has no authority to establish a rate governing the transportation or sale of such natural gas. [52 Stat. 823 (1938); 15 U. S. C. 717d (1946)]

* * *

SEC. 7. (a) Whenever the Commission, after notice and opportunity for hearing, finds such action necessary or desirable in the public interest, it may by order direct a natural-gas company to extend or improve its transportation facilities, to establish physical connection of its transportation facilities with the facilities of, and sell natural gas to, any person or municipality engaged or legally authorized to engage in the local distribution of natural or artificial gas to the public, and for such purpose to extend its transportation facilities to communities immediately adjacent to such facilities or to territory served by such natural-gas company, if the Commission finds that no undue burden will be placed upon such natural-gas company thereby: *Provided,* That the Commission shall have no authority to compel the enlargement of transportation facilities for such purposes, or to compel such natural-gas company to establish physical connection or sell natural

gas when to do so would impair its ability to render adequate service to its customers. [52 Stat. 824 (1938); 15 U. S. C. 717f (a) (1946)]

(b) No natural-gas company shall abandon all or any portion of its facilities subject to the jurisdiction of the Commission, or any service rendered by means of such facilities, without the permission and approval of the Commission first had and obtained, after due hearing, and a finding by the Commission that the available supply of natural gas is depleted to the extent that the continuance of service is unwarranted, or that the present or future public convenience or necessity permit such abandonment. [52 Stat. 824 (1938); 15 U. S. C. 717f (b) (1946)]

(c)[1] No natural-gas company or person which will be a natural-gas company upon completion of any proposed construction or extension shall engage in the transportation or sale of natural gas, subject to the jurisdiction of the Commission, or undertake the construction or extension of any facilities therefor, or acquire or operate any such facilities or extensions thereof, unless there is in force with respect to such natural-gas company a certificate of public convenience and necessity issued by the Commission authorizing such acts or operations: *Provided, however.* That if any such natural-gas company or predecessor in interest was bona fide engaged in transportation or sale of natural gas, subject to the jurisdiction of the Commission, on the effective date of this amendatory Act, over the route or routes or within the area for which application is made and has so operated since that time, the Commission shall issue such certificate without requiring further proof that public convenience and necessity will be served by such operation, and without further proceedings, if application for such certificate is made to the Commission within ninety days after the effective date of this amendatory Act. Pending the determination of any such application, the continuance of such operation shall be lawful.

In all other cases the Commission shall set the matter for hearing and shall give such reasonable notice of the hearing thereon to all interested persons as in its judgment may be necessary under rules and regulations to be prescribed by

[1] Subsection 7 (c) was amended February 7, 1942 by Public Law No. 444, 77th Congress, Chapter 49, 2d Session [H. R. 5249], 56 Stat. 83.

the Commission; and the application shall be decided in accordance with the procedure provided in subsection (e) of this section and such certificate shall be issued or denied accordingly: *Provided, however,* That the Commission may issue a temporary certificate in cases of emergency, to assure maintenance of adequate service or to serve particular customers, without notice of hearing, pending the determination of an application for a certificate, and may by regulation exempt from the requirements of this section temporary acts or operations for which the issuance of a certificate will not be required in the public interest. [52 Stat. 825 (1938), as amended, 56 Stat. 83 (1942); 15 U. S. C. § 717f (c) (1946)].[2]

* * *

SEC. 11 (a) In case two or more States propose to the Congress compacts dealing with the conservation, production, transportation, or distribution of natural gas it shall be the duty of the Commission to assemble pertinent information relative to the matters covered in any such proposed compact, to make public and to report to the Congress information so obtained, together with such recommendations for further legislation as may appear to be ap-

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[2] As originally enacted June 21, 1938 by Public Law No. 688, 75th Congress, Chapter 556, 3d Session [H. R. 6586], 52 Stat. 825, Section 7 (c) read as follows:

"(c) No natural-gas company shall undertake the construction or extension of any facilities for the transportation of natural gas to a market in which natural gas is already being served by another natural-gas company, or acquire or operate any such facilities or extensions thereof, or engage in transportation by means of any new or additional facilities, or sell natural gas in any such market, unless and until there shall first have been obtained from the Commission a certificate that the present or future public convenience and necessity require or will require such new construction or operation of any such facilities or extensions thereof: *Provided, however,* That a natural-gas company already serving a market may enlarge or extend its facilities for the purpose of supplying increased market demands in the territory in which it operates. Whenever any natural-gas company shall make application for a certificate of convenience and necessity under the provisions of this subsection, the Commission shall set the matter for hearing and shall give such reasonable notice of the hearing thereon to all interested persons as in its judgment may be necessary under rules and regulations to be prescribed by the Commission. In passing on applications for certificates of convenience and necessity, the Commission shall give due consideration to the applicant's ability to render and maintain adequate service at rates lower than those prevailing in the territory to be served, it being the intention of Congress that natural gas shall be sold in interstate commerce for resale for ultimate public consumption for domestic, commercial, industrial, or any other use at the lowest possible reasonable rate consistent with the maintenance of adequate service in the public interest." (52 Stat. 825 (1938))

propriate or necessary to carry out the purposes of such proposed compact and to aid in the conservation of natural-gas resources within the United States and in the orderly, equitable, and economic production, transportation, and distribution of natural gas.

(b) It shall be the duty of the Commission to assemble and keep current pertinent information relative to the effect and operation of any compact between two or more States heretofore or hereafter approved by the Congress, to make such information public, and to report to the Congress, from time to time, the information so obtained together with such recommendations as may appear to be appropriate or necessary to promote the purposes of such compact.

(c) In carrying out the purposes of this act, the Commission shall, so far as practicable, avail itself of the services, records, reports, and information of the executive departments and other agencies of the Government, and the President may, from time to time, direct that such services and facilities be made available to the Commission. [52 Stat. 827 (1938); 15 U. S. C. 717j (1946)]

* * *

SEC. 19 * * *

(b) Any party to a proceeding under this act aggrieved by an order issued by the Commission in such proceeding may obtain a review of such order in the circuit court of appeals of the United States for any circuit wherein the natural-gas company to which the order relates is located or has its principal place of business, or in the United States Court of Appeals for the District of Columbia, by filing in such court, within sixty days after the order of the Commission upon the application for rehearing, a written petition praying that the order of the Commission be modified or set aside in whole or in part. A copy of such petition shall forthwith be served upon any member of the Commission and thereupon the Commission shall certify and file with the court a transcript of the record upon which the order complained of was entered. Upon the filing of such transcript such court shall have exclusive jurisdiction to affirm, modify, or set aside such order in whole or in part. No objection to the order of the Commission shall be considered by the court un-

less such objection shall have been urged before the Commission in the application for rehearing unless there is reasonable ground for failure so to do. The finding of the Commission as to the facts, if supported by substantial evidence, shall be conclusive. If any party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for failure to adduce such evidence in the proceedings before the Commission, the court may order such additional evidence to be taken before the Commission and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The Commission may modify its findings as to the facts by reason of the additional evidence so taken, and it shall file with the court such modified or new findings, which if supported by substantial evidence, shall be conclusive, and its recommendation, if any, for the modification or setting aside of the original order. The judgment and decree of the court, affirming, modifying, or setting aside, in whole or in part, any such order of the Commission, shall be final, subject to review by the Supreme Court of the United States upon certiorari or certification as provided in sections 239 and 240 of the Judicial Code, as amended (U. S. C., title 28, secs. 346 and 347).

* * *

GOLDSMITH SYSTEM
TRANSMISSION LINES OF RESIDUE PURCHASERS
GATHERING LINES
RESIDUE LINES
FIELD BOOSTERS
SID RICHARDSON

Appendix B

FILE COPY

No. 280

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Supreme Court of the United States

OCTOBER TERM, 1953

PHILLIPS PETROLEUM COMPANY, *Petitioner,*

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, CITY OF DETROIT, MICHIGAN, CITY OF KANSAS CITY, MISSOURI, CITY OF MILWAUKEE, a municipal corporation, COUNTY OF WAYNE, MICHIGAN and THE FEDERAL POWER COMMISSION, *Respondents.*

REPLY BRIEF FOR PETITIONER PHILLIPS PETROLEUM COMPANY

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REPLY BRIEF FOR PETITIONER PHILLIPS PETROLEUM COMPANY

I. THE WORDS "PRODUCTION OR GATHERING" IN SECTION 1(b) DESCRIBE A SEGMENT OF THE NATURAL GAS INDUSTRY AND NOT, AS RESPONDENTS ASSERT, A DOCTRINE OF CONSTITUTIONAL LAW

The basic issue here is one of statutory construction, *i.e.*, what meaning is to be given to the words "production or gathering of natural gas." Phillips' position is that the words, given their ordinary meaning and read in context and against the background of the

legislative history, mean the business or economic function of production and gathering (Phillips' brief, pp. 19-45). Respondents reject this meaning of the words and as a result when they attempt to square their contentions with the provisions of the statute they become involved in difficulties, ambiguities and inconsistencies which make it impossible for them to advance a consistent and coherent interpretation of the statutory language.

From the fact that when Congress passed the Natural Gas Act it intended to close a "gap" in the regulatory authority, the Respondents attempt to draw the conclusion that the words "production or gathering" are to be interpreted and applied solely by reference to limitations that Respondents assert exist on the constitutional powers of the states.

Respondents' argument on this point assumes different forms at different points in their brief. At times they contend broadly that all sales for resale in interstate commerce are beyond the constitutional powers of the states to regulate and hence that no such sale can be covered by the words "production or gathering" in Section 1(b) (Respondents' brief, p. 28). On this reading of the statute, federal regulatory power extends to all sales for resale in interstate commerce including those made at the well-head. And since it would not be possible to give one meaning to the affirmative provision of Section 1(b) relating to sales for resale and a different meaning to the coordinate and parallel affirmative provision relating to transportation, this reading of the statute also means that all interstate transportation of natural gas, even though it occurs in the course of gathering, is subject to federal regulation and that the only gathering excluded

from regulation is the gathering of gas which never moves to an interstate destination.

Respondents shrink from the consequences of this interpretation of the statute and at other points in their brief they appear to take the position that federal regulation does not extend to all but only to some sales for resale in interstate commerce. Thus respondents appear to concede that sales made at the well-head are not subject to regulation because such sales may be regulated by the states under the decision of this Court in *Cities Service Gas Co.* v. *Peerless Gas & Oil Co.*, 340 U.S. 179 (Respondents' brief, pp. 35-36). On this reading of the statute the words "production or gathering" exclude from federal power *some* but not *all* sales for resale in interstate commerce and the test for determining whether particular sales are subject to federal regulation is whether the states have the power to regulate the sales in question.

If it is assumed, as this interpretation of the statute does, that the words "production or gathering" cover some sales, the words themselves supply no basis for a distinction between sales that rests on the constitutional power of the states. On the contrary, the only reasonable basis for determining what sales are covered, and the only one consistent with the ordinary usage of the words and with the intent of Congress as evidenced by the legislative history, is whether the sales are a part of the economic function or operation that the words "production or gathering" describe. Respondents make no serious argument that the words "production or gathering", in themselves, provide any support for a distinction between sales based on doctrines of constitutional law. To support the asserted distinction the Respondents rely largely on extrinsic materials in the legislative history which they assert show that

Congress intended to close a gap in regulatory authority. In our main brief we have pointed out that although Congress admittedly intended to close a gap in regulatory authority, the gap that it intended to close was a gap in the authority of the states to regulate the activities of the interstate transmission companies and not a gap that related in any way to field sales made by independent producers or gatherers (Phillips' brief, pp. 38-40). The Respondents also attempt to support their argument by reference to statements by this Court that the statute was intended to close a gap in regulatory authority. Those statements, as we have also shown in our main brief, were directed to the gap in the authority to regulate the activities of the interstate transmission companies and do not sanction the extension of federal authority to any aspect of the business of independent producers and gatherers (Phillips' brief, p. 52).

Whenever the Respondents leave these extrinsic materials and attempt to support their general position by reference to the words of the statute, they become involved in additional difficulties. For example, at page 44 of their brief they assert that "matters specified in the affirmative provisions of Section 1(b) are not included in the negative provisions of that section." The matters specified in the affirmative provisions of Section 1(b) are sales in interstate commerce for resale and transportation in interstate commerce. Accordingly, this contention means that the words "production or gathering" in Section 1(b) cannot cover any sales for resale in interstate commerce or any transportation of natural gas in interstate commerce. Furthermore, on this reading of the statute, questions of state power are irrelevant because the application of the statute follows necessarily and auto-

matically from the affirmative provisions of Section 1(b) without regard to questions of constitutional power.

Here again Respondents shrink from the consequences of their argument particularly as it applies to transportation. They realize that their argument, if accepted at face value, means that all transportation of gas during gathering is subject to federal regulation if the gas is moving toward an interstate destination. They therefore assert that the word "transportation" in the affirmative provisions of Section 1(b) does not cover all movement in interstate commerce but only some movement. And they further assert that the distinction between the interstate movement that is covered by the affirmative provisions of Section 1(b) and the movement that is not covered depends on whether there is continued commingling of gas within the particular pipe in which the gas is moving (Respondents' brief, p. 44).

The word "transportation" standing alone in the affirmative provisions of Section 1(b) does not provide a basis for this alleged distinction. If the statute distinguishes between some transportation in interstate commerce and other such transportation, that distinction must be found in the words "production or gathering" in the concluding clause of Section 1(b). Respondents appear to recognize this fact because at other points in their argument they attempt to distinguish between the movement in interstate commerce covered by the statute and the movement excluded from regulation by arguments addressed to the meaning that they contend should be given to the word "gathering" in the exemptive clause of Section 1(b) (Respondents' brief, p. 39, note 8). This recognition

that the word "gathering" does cover some transportation in interstate commerce is necessarily inconsistent with Respondents' broad assertion that the matters specified in the affirmative provisions of Section 1(b) are not covered by the negative provisions of that section.[1]

The significant point in this discussion is not that the Respondents have fallen into minor or inconsequential inconsistencies. The important point is that the Respondents are unable to come forward with a coherent and consistent interpretation of the statute. At points in their argument they seem to recognize that not all sales for resale in interstate commerce and not all transportation in interstate commerce are subject to federal regulation. But the question is what sales and transportation are excluded from regulation. Our position is that the question whether particular sales or particular transportation is subject to regulation depends upon whether the transportation or the sales are a part of the economic operation or function that is described by the words "production or gathering". In contrast, when the Respondents attempt to articulate a standard for determining what sales and transportation are subjected to regulation, they fall into the

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[1] Respondents fall into a further inconsistency when they assert that the words "production or gathering of natural gas" cannot mean "anything other than a physical activity" (Respondents' brief, p. 41). If this is so all sales for resale in interstate commerce are subject to regulation; yet Respondents themselves appear to recognize that the statute does not apply to any sales that are subject to state regulation under the decision of this Court in the Cities Service case. This contention is also flatly inconsistent with the statement by this Court in the Interstate case that in appropriate circumstances the words "production or gathering" in Section 1(b) exclude from regulation sales even though made by an interstate transmission company.

difficulties, ambiguities and inconsistencies that have been described above. These infirmities in Respondents' arguments are the result of their refusal to accept the fact that the words "production or gathering" describe a business or segment of the natural gas industry and neither embody a doctrine of constitutional law nor reflect the esoteric and unexpressed distinctions suggested by Respondents.

Our principal brief has shown that Congress intended to regulate the business of the interstate transmission companies which transport gas from the producing fields to consumer markets (Phillips' brief, pp. 27-45). The words that Congress used in the Natural Gas Act to describe the scope of the regulation are words that describe this interstate transmission business and do not describe or provide for regulation of either of the other two segments of the natural gas industry, that is to say, the business of producing or gathering or the business of local distribution (Phillips' brief, pp. 19-27). If the words of the statute are read as applying to a particular segment of the natural gas industry, *i.e.*, the interstate transmission of gas from the producing fields to consumer markets, which is the meaning that Congress intended, and a meaning that is consistent with the ordinary significance of the words, the statute can be interpreted and applied as a coherent and consistent whole. On that basis the whole of the business of producing and gathering is excluded from federal regulation. On the other hand any attempt to divide or segment the business of producing and gathering and to subject some parts of it to regulation and to exclude others, on the basis of distinctions not expressed in the statute and not consistent with the meaning of its words or

with the intent of Congress, inevitably involves all of the inconsistencies, ambiguities and difficulties that are displayed in Respondents' argument.

II. The Commission's decision leaves no gap in regulatory authority

The Respondents contend that the effect of the Commission's decision holding that Phillips' sales are not subject to regulation under the Natural Gas Act is to create a gap in regulatory authority. This contention is unfounded.[2]

Under the decision of this Court in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U.S. 179, the states have authority to regulate Phillips' sales. The Respondents concede, as they must, that the *Cities Service* case held that the State of Oklahoma had power under the constitution to regulate sales of natural gas in interstate commerce. Respondents contend, however, that Phillips' sales are distinguishable from the sales involved in the *Cities Service* case. The grounds of distinction asserted by Respondents are without merit. It cannot be disputed that the sales in the *Cities Service* case were in interstate commerce. It also cannot be disputed that they were sales for resale since Cities Service bought the gas to sell to others, and not to use itself.

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[2] In making this argument Respondents assert that the Oklahoma price regulation does not apply to the sales that are involved in the instant case. This is incorrect. The price order issued by the State of Oklahoma applies to all of the gas produced by Phillips in the Guymon-Hugoton Field, including gas that Phillips sells to Michigan-Wisconsin Pipe Line Company and Panhandle Eastern Pipe Line Company, two of the sales involved in this case. See Phillips Petroleum Company v. Oklahoma, 340 U.S. 190. See also, Phillips' brief, p. 66.

Respondents assert, however, that Phillips' sales, unlike the sales in the *Cities Service* case, are sales of "national" and not "local" concern (Respondents' brief, p. 35). The reasons advanced by Respondents in support of this contention will not bear examination. The first reason advanced by Respondents rests upon the alleged "magnitude of the operations by Phillips and the impact of its charges upon the consuming public in distant states" (Respondents' brief, p. 32). Whether sales are of national or local concern within the meaning of the doctrine laid down in the *Cities Service* case does not depend upon the volume of gas involved in particular sales. Nothing in the opinion in the *Cities Service* case suggests that the decision by the Court there rested on the fact that the sales to Cities Service were small. On the contrary, the opinion of the Court dealt with the Oklahoma regulation in terms of its application to the entire Oklahoma portion of the field and on that basis the volume of gas affected by the Oklahoma regulation was greater than the volume of gas involved in Phillips' transactions. The Court recognized in that case that ninety per cent of the gas affected by the regulation was ultimately consumed outside the borders of the State of Oklahoma. This shows that there is nothing in Respondents' contention that Phillips' sales are of national rather than local concern because the gas is ultimately consumed at a number of points beyond the borders of the states where the gas is produced.

The Respondents also contend that the decision of this Court in *Michigan-Wisconsin Pipe Line Co.* v. *Calvert*, 347 U.S. 157, shows that Phillips' sales to the interstate pipe line companies are not a local activity (Respondents' brief, p. 32). This contention rests upon a misreading of the Court's opinion in that case. There

this Court held invalid a Texas tax based on the taking of gas by interstate transmission companies from Phillips because that taking was so closely related to interstate transmission that it could not be separated from the transmission and regarded as a separable local activity subject to taxation by the state.

As is pointed out in our principal brief (p. 64, n. 52), this Court did not hold in that case that Phillips' operations, including its sales to the interstate transmission companies, were of national rather than local concern. On the contrary, the opinion of the Court recognized the distinction between the national character of the interstate transmission business and the essentially local character of the business done by Phillips. Thus the Court opened its discussion by stating that "Appellants' business is the interstate transportation and sale of natural gas." 347 U.S. at 165. It stressed that "the tax here is not levied on the capture or production of the gas, but rather on its taking into interstate commerce *after* production, gathering and processing." *Id.* at 169 (emphasis that of the Court). And the Court also emphasized that "the processing, on which the tax is *not* imposed, was done by Phillips and took place prior to the taxable event of 'taking'." *Id.* at 169 (emphasis that of the Court). Finally, the Court's recognition of the essentially local character of Phillips' activities, including its sales, appears clearly from its discussion of the decision in *Utah Power & Light Co.* v. *Pfost,* 286 U.S. 165. In discussing that case, which upheld an Idaho license tax on the generation of electricity in Idaho for transmission to Utah, the Court said that that situation "is analogous to the situation here where the gas is prepared by Phillips for transmission and is then fed into appellants' lines", thus

clearly indicating that Phillips' activities, including its sales to the interstate transmission companies, are local in character. 347 U.S. at 168 n. 6.

III. The exclusion of gathering applies to gas purchased as well as to gas produced by the gatherer

Respondents contend that Phillips' sales are subject to federal regulation because a part of the gas that Phillips gathers, processes and sells is purchased by Phillips from other producers (Respondents' brief pp. 6, 7, 22, 56-58). In considering this contention it should be remembered that Phillips does not sell gas that has been gathered by others; all of the gas Phillips sells to the interstate transmission companies is gathered by Phillips.

Respondents' contention conflicts with the words of the statute. Section 1(b) provides that the Act shall not apply to "the production *or* gathering of natural gas". These words clearly apply to one who gathers but does not produce as well as to one who both produces and gathers.

There was abundant testimony in this proceeding, both by witnesses for Phillips and by witnesses for the Federal Power Commission's staff, that in the industry the activity of gathering includes the gathering of purchased gas as well as the gathering of gas produced by the gatherer (R. 702-710; see also 5094-5096 in the original stenographic transcript). Moreover, the Commission has consistently treated gathering as including purchased gas as well as gas produced by the gatherer. *H. L. Hunt*, 6 F.P.C. 837; *The Chicago Corporation*, 6 F.P.C. 98; *Kansas-Nebraska Natural Gas Co., Inc. and Kansas Natural Gas, Inc.*, 6 F.P.C. 664, and *Arkansas Louisiana Gas Co.*, 7 F.P.C. 766.

To support their arguments Respondents resort to certain passages in Mr. DeVane's testimony in the hearings on H. R. 11662 relating to changes in ownership of gas. See Respondents' brief, pp. 56-57. Respondents' reliance upon this testimony is clearly misplaced. Mr. DeVane's remarks concerning changes in ownership were directed only to changes in ownership occurring during interstate transmission between the producing fields and the consumer market. This is shown by his words; he stated that under the bill the Federal Power Commission would have "no control of the gathering rate" which would be "fixed by competitive conditions that exist in the field"; he then went on to refer to changes in ownership "between the time the gas starts to move in interstate commerce and gets to the city gates." See Phillips' brief, p. 32, n. 25. Furthermore Respondents themselves take the view that H. R. 11662 applied only to interstate transmission companies; indeed this is the ground for their general contention that Mr. DeVane's testimony should be disregarded. On this basis it necessarily follows that Mr. DeVane was talking about changes in ownership that occur during interstate transmission and not about changes during the production or gathering process.

In this connection Respondents assert on page 58 of their brief that "by the time Phillips sells and delivers natural gas to the five pipeline companies for resale the gas has been and is being transported in high pressure mains so as to be within even the limited scope of the jurisdictional provisions of H. R. 11662." This statement is incorrect. The evidence and the Commission's findings show that neither the lines leading into the processing plants nor the short plant outlets are "high pressure mains." See Phillips' brief, p. 71, n. 58. But aside from its being without factual founda-

tion, Respondents' assertion would make one physical circumstance controlling to the exclusion of all other relevant facts. The question whether Phillips' movements of gas are gathering or statutory transportation does not turn on the question of the pressure in the lines. It turns on the question whether the movement is a part of the economic process or operation of gathering. In this case the Commission found that all of Phillips' lines are gathering lines and not transmission lines. Its findings were fully supported by the evidence. See Phillips' brief, pp. 68-69. This being the case, Phillips' activities were properly held by the Commission not to be subject to regulation.

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Nos. 280, 281

Supreme Court of The United States

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v.

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BRIEF IN OPPOSITION TO GRANTING OF WRITS

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OPINION BELOW

The opinion and order of the Federal Power Commission (R. 1682-1835) with the dissenting opinion of Commissioner Buchanan is reported in 90 P. U. R. (NS) 325. The opinion of the Court of Appeals (R. 1857-73) is not yet reported.

JURISDICTION

The jurisdictional requisites are adequately set forth in the petitions.

QUESTION PRESENTED

1. Whether Phillips Petroleum Company is a "natural gas company" within the meaning of the Natural Gas Act and subject to the jurisdiction of the Federal Power Commission to fix rates at which Phillips sells natural gas at wholesale to five interstate pipeline companies for interstate transportation and resale.

STATUTES INVOLVED

The pertinent provisions of the Natural Gas Act are printed in Appendix A of the petitions.

STATEMENT OF THE CASE

There is no dispute as to the manner in which Phillips Petroleum Company actually operates its natural gas business. It is engaged in carrying natural gas in progressively larger diameter pipelines from wells in Oklahoma, Texas, and New Mexico to 10 processing plants located in Texas and New Mexico where sulphur, water, dust, or similar foreign matter as well as certain hydro-carbons are removed. After processing the residue gas is carried relatively short distances in pipelines from the processing plant where it is delivered and sold in interstate commerce to 5 interstate pipeline companies, which pipeline companies in turn carry the gas in pipelines for resale to many distributing companies supplying the ultimate consumer in the States of Arizona, California, Nebraska, Iowa, Minnesota, Missouri, Illinois, Indiana, Kansas, Michigan, Ohio, South Dakota, and Wisconsin. R. 753-58; 1692-1711; 1827-34.

Some of the natural gas sold in interstate commerce by Phillips to the 5 interstate pipeline companies is produced by itself *but* it also buys large quantities from other producers, (Petition in No. 280, p. 6; Ex. 79; R. 345, 1212-13) and hence is a "wholesaler" of gas in the sense it sells gas produced by others. It is also a "wholesaler" of gas by reason of its sales for resale to the 5 interstate pipeline companies.

The final comingling of gas from the different lines takes place in each case no later than in the processing plant. Petition in No. 280, p. 5. There are also instances where gas is carried in large diameter pipes in constant volumes to the processing plant for considerable distances with no connections in or out of said lines for the last several miles before reaching the plant, and the Power Commission so found. R. 1743. One such pipeline crosses the Oklahoma-Texas state line. R. 1692.

In normal operations there is a continuous and uninterrupted flow of gas in interstate commerce from the wells to and through the processing plant, and then to the point of delivery and sale to each of the interstate pipeline companies, and from there to the points of ultimate consumption in other States. R. 200-1; 257-61; 306-8; 315-17; 320-24; 626-7; 1827-34.

The Power Commission *found* (a) that the sales by Phillips to the 5 interstate pipeline companies are sales in interstate commerce of natural gas for resale for ultimate public consumption, and (b) that Phillips is engaged

in transportation of natural gas in interstate commerce.[1] Finding (a) is based on a concession by Phillips that such sales are sales in interstate commerce for resale. R. 1712; 1740.

ARGUMENT

This case does not fall within any of the reasons specified in Rule 38, paragraph 5 (b) for granting a writ of certiorari. Specifically:

(a) There is no conflict with the decision of any Court of Appeals on the same matter. The decision of the Court of Appeals here is in accord with its prior decision and also decisions of other courts of appeal. *Peoples Natural Gas Co. v. Federal Power Comm.*, 75 U. S. App. D. C. 235, 127 F. 2d 153 (1942), certiorari denied 316 U. S. 700; *Interstate Natural Gas Co. v. Federal Power Comm.*, (C. A. 5) 156 F. 2d 949 (1946), affirmed 331 U. S. 682. In *State Corporation Comm. of Kansas v. Federal Power Comm.*, (C. A. 8), No. 14704, and *Northern Natural Gas Co. v. Federal Power Comm.*, (C. A. 8), Nos. 14706, 14733 and 14743, decided July 20, 1953, — F. 2d —, the court said:

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[1] The exact language of the Power Commission is as follows: (R. 1712) "• • • For it [Phillips Petroleum Company] correctly concedes that the sales involved here are sales in interstate commerce for resale. Nor can there be any doubt that Phillips' movement of that gas from the points of production to the points of sale constitutes transportation in interstate commerce as a matter of constitutional law. Indeed, this is in part implicit in Phillips' concession respecting the sales." • • •

(R. 1740) "• • • It [Phillips Petroleum Company] concedes, and on the record here it could not deny, that the sales involved are sales 'in interstate commerce of natural gas for resale for ultimate public consumption' within Section 1 (b)'s affirmatively stated coverage of the Act when considered independently of the exemption of production and gathering. Also, its operations, clearly include the 'transportation of natural gas in interstate commerce' similarly within that affirmatively stated coverage when considered independently of the exemption of production and gathering."

"We are not in disagreement with the decision of the Court of Appeals for the District of Columbia in this Phillips Case."

(b) There are decisions of this court which directly settle the questions involved. There is no conflict between the decision of the Court of Appeals here and applicable decisions of this court. To the contrary, the decision of the Court of Appeals here is fully in accord with decisions of this court in litigation involving the Natural Gas Act and the principles therein applied and it is correct.

The governing principle is one of constitutional law, namely that sales of natural gas in interstate commerce for resale are beyond the constitutional competence of the states to regulate. The applicable cases of this court are *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682 (1947); *Illinois Natural Gas Co. v. Central Illinois Public Service Co.*, 314 U. S. 498 (1942); *Federal Power Comm. v. Hope Natural Gas Co.*, 320 U. S. 591 (1944); *Colorado Interstate Gas Co. v. Federal Power Comm.*, 324 U. S. 581 (1945); *Panhandle Eastern Pipe Line Co. v. Public Service Comm. of Indiana*, 332 U. S. 507 (1947); *Federal Power Comm. v. East Ohio Gas Co.*, 338 U. S. 464 (1950); *Panhandle Eastern Pipe Line Co. v. Michigan Public Service Comm.*, 341 U. S. 329 (1951). See *United States v. Public Utilities Comm.*, 345 U. S. 295 (1953) 311.

CONCLUSION

The decision below is correct and fully accords with the applicable decisions of this court which we have cited. There is no conflict of decisions. We submit the petitions for a writ of certiorari in Nos. 280 and 281 should be denied.

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Joint Brief of Respondents State of Wisconsin, Public Service Commission of Wisconsin, Cities of Detroit, Michigan, Kansas City, Missouri, Milwaukee, Wisconsin, and County of Wayne, Michigan

OPINIONS BELOW

The opinion and order of the Federal Power Commission (FPC) (R. V. 1682-1835) with the dissenting opinion of Commissioner Buchanan is reported in 90 P. U. R. (N. S.) 325 and 10 F. P. C. 246. The opinion of the Court of Appeals (R. 1857-1873) is reported in 205 F. 2d 706.

JURISDICTION

The jurisdictional requisites are adequately set forth in the briefs for the petitioners.

QUESTION PRESENTED

Whether one of the largest sellers of natural gas in the nation admittedly engaged in making sales for resale in interstate commerce, and transporting said gas in interstate commerce, so as to make such activities beyond the constitutional powers of the states but within the express jurisdictional language of the Natural Gas Act, can escape federal regulation requiring that its charges be just and reasonable, by claiming that a clause making the Act inapplicable to production or gathering of natural gas, encompasses such sales and transportation.

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STATEMENT OF THE CASE

(1) *The natural gas operations of Phillips Petroleum Company.*

(a) *In general.* There is no dispute as to the manner in which Phillips Petroleum Company actually operates its natural gas business. It is engaged in carrying natural gas in progressively large diameter pipe lines from wells in Oklahoma, Texas, and New Mexico to 10 processing plants[1] located in Texas and New Mexico where sulphur, water, dust, or similar foreign matter, as well as certain hydro carbons, are removed. After processing the residue gas is carried distances ranging from 240 to ~~1460~~ 1490 feet[2] in pipe lines from the processing plant where it is delivered and sold in interstate commerce for resale to 5 interstate pipeline companies, which pipeline companies in turn carry the gas in pipe lines for resale to many distributing companies supplying the ultimate consumer in the States of Arizona, California, Oklahoma, Kansas, Nebraska, Iowa, Minnesota, Missouri, Illinois, Indiana, Michigan, Ohio, South Dakota, Wisconsin, and the Province of Ontario, Canada. At least 49 principal cities are served with gas purchased by these interstate pipe line companies from Phillips, including the cities of Akron, Toledo, Cleveland, Detroit, Milwaukee, Minneapolis and St. Paul, Des Moines, Omaha, Kansas City, Missouri, San Francisco, Los Angeles, and San Diego. Exhibit 1-A, R. III. 753-754; R. II. 621; R. I. 285-286; R. V. 1692-1711, 1827-1934. A map (Exhibit I-A,

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[1]This figure is based upon record herein. Note FPC statement that Phillips has 25 plants plus an interest in 10 more. FPC brief p. 7.

[2]R. V. 1696, 1708.

R. III. 755; R. II. 621) showing interstate pipe lines and areas supplied by Phillips identified as item III, is included in the Appendix to this brief.

If not the largest, Phillips is one of the largest producers of natural gas in the United States. Phillips sells more natural gas to companies reporting to the Federal Power Commission than any other company. R. II. 739. Its 1949 annual report to stockholders recites its resources of natural gas are generally recognized as being the largest held by any company in the country. R. I. 151. On December 31, 1949 Phillips owned or controlled by contract 15.22 trillion cubic feet of proved gas reserves. R. V. 1689. Phillips' 1950 report to stockholders states the volume of gas sales reached a record level in 1950. Excluding company requirements, sales to outside purchasers totaled 504 billion cubic feet; with company use added, the total was 630 billion cubic feet, an average of more than 1.7 billion cubic feet a day. Gross income from these sales to outside purchasers was 26 million dollars. R. I. 153. The specific figures appear in Exhibits 54 and 55, R. III. 1053, 1069; R. I. 303. In 1950 total outside sales of natural gas by Phillips was 499,699,396 thousand cubic feet (Mcf.), of which 324,500,988 Mcf. was sold to companies reporting to the FPC as natural gas companies. In 1949 the comparable figures were 416,273,797 Mcf. and 220,881,579 Mcf., respectively. In 1950 the average price per Mcf. was 5.16 cents and in 1949 was 4.90 cents.

The five pipeline companies to which Phillips sells and delivers gas, as shown by the record here, the name

and location of the gasoline plant at which gas is processed, and volumes sold and delivered is as follows:

Name	Gasoline Plant and State Where Located[3]	Volumes Sold in Mcf. 1949	[4] 1950
Michigan-Wisconsin Pipe-Line Company	Sherman, Texas	9,894,001	77,153,738
Panhandle Eastern Pipe-Line Company	Hansford Texas) Sneed, Texas)	67,928,205	64,207,253
El Paso Natural Gas Company	Dumas, Texas) Crane, Texas) Eunice, New Mexico) Fullerton, Texas) Goldsmith, Texas)	88,204,611	126,134,113
Independent Natural Gas Company, for Northern Natural Gas Company	Gray, Texas	12,453,753	13,723,822
Cities Service Gas Company	Edmond, Oklahoma) Hunton, Oklahoma) Trindle, Oklahoma)	16,691,371	17,966,098

A map showing the location of the aforesaid gasoline plants and principal pipe lines leading to and from them is set forth as item IV in the Appendix to this brief. This map appears in the record along with diagrams showing the schematic layout of the various gasoline plants and also the points of delivery to the various interstate pipe lines as Appendix A(1) and A(2) (R. V. 1823, 1824) following the dissenting opinion of Commissioner Buchanan.

Gas supplied through the Sherman, Hansford, Sneed, Dumas, and Gray Plants comes from gas wells in the Hugoton Field in Oklahoma and Texas or the East or West Panhandle Fields in Texas. Gas supplied through the

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[3]The data as to name and location of gasoline plants is taken from the opinion of the FPC. R. V. 1692, 1695, 1697, 1699, 1703, 1705, 1710, 1711.

[4]The data as to volumes of gas sold is taken from Exhibits 54 and 55. R. III. 1053, 1069; R. I. 303. The volumes shown are total sales to the companies named and in certain instances include sales of gas other than that processed at the gasoline plants listed.

Crane, Eunice, Fullerton, and Goldsmith Plants is substantially all casing head gas, which is natural gas produced with oil (R. V. 1699) which comes from the Permian Basin in Texas and New Mexico. R. V. 1691-1709. Gas sold to Cities Service is casing head gas which comes from the Edmond and West Edmond Fields in Oklahoma. R. V. 1710-1711.

(b) *The final comingling of gas from the different lines takes place in each case no later than in the processing plant.* This is an admitted fact. FPC brief, p. 8; Phillips brief, p. 7. There are also instances where gas is carried in large diameter pipes in constant volumes to the processing plant for considerable distances with no connections in or out of said lines for the last several miles before reaching the plant, and the FPC so found. R. V. 1743. Examples appear in the FPC opinion (R. V. 1692-1693, 1697, 1700, 1703). Two such pipe lines cross the Oklahoma-Texas state line enroute to the Sherman Plant. R. V. 1692-3. For map showing these and other lines, see item IV, Appendix to this brief.

(c) *Phillips is also a wholesaler of natural gas purchased by it from other producers.* The gas processed at said gasoline plants includes not only gas produced by Phillips, but also a considerable volume purchased by Phillips from others, i.e., about 50%. This is an admitted fact. FPC brief, p. 7. As an example, of the average daily volume of 362,997 Mcf. processed in the Sherman plant for delivery to Michigan-Wisconsin Pipe Line Company in the month of March 1951, 204,724 Mcf. or 56%, was gas Phillips purchased from 9 other companies. Exhibit 79, R. IV. 1213; R. I. 345.

As another example in February 1951 Phillips purchased gas from others as follows:

Name of Plant	Gas Produced by Phillips (M.C.F.)	Gas Purchased from Others by Phillips (M.C.F.)	Total (M.C.F.)	% of Total Supply Purchased from Others
Dumas and Sneed	11,840,408	3,229,616	15,070,024	21.43%
Crane	5,438	964,344	969,782	99.44
Fullerton	516,516	1,010,109	1,326,625	76.14
Eunice	69,618	3,158,815	3,228,433	97.84
Goldsmith	829,311	2,370,334	3,199,645	74.08
Hansford	3,154,024	....	3,154,024	....
Gray	1,676,000	1,030,357	2,705,357	38.07
North	10,322	219,973	230,295	95.52

(Source of above figures Exhibits 181, 182, 183 and 184 R. V. 1640-4 Admitted FPC record 5470. Volumes are in MCF)

(d) *There is a continuous and uninterrupted flow of natural gas in interstate commerce from the wells to the ultimate consumer.*[3] It appears without dispute that the natural gas which Phillips delivers to the 5 interstate pipeline companies in normal operations moves in a continuous and uninterrupted flow from the producing wells through the various pipe lines of increasing diameter to the various gasoline plants and then to the point of delivery and sale to the pipeline companies. R. I. 200-202, 257-260, 315-317, 320-323; R. III. 626-627.

This continuous and uninterrupted flow of natural gas in interstate commerce then continues from the point of delivery and sale to the interstate pipeline companies in the States of Texas and New Mexico across state lines to

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[3]In **Michigan-Wisconsin Pipe Line Co. v. Calvert, et al.**, 347 U. S. 157, 163, this Court said "The entire movement of the gas, from producing wells through the Phillips gasoline plant and into the Michigan-Wisconsin pipeline to consumers outside Texas, is a steady and continuous flow. All of Michigan-Wisconsin's gas is purchased from Phillips for transportation to points outside Texas, and is in fact so transported."

areas of ultimate consumption in the States of Arizona, California, Oklahoma, Kansas, Missouri, Nebraska, Iowa, Minnesota, Wisconsin, Illinois, Indiana, Michigan, Ohio, and the Province of Ontario, Canada. This is established by a *stipulation* of facts entered into by the parties, including Phillips. R. V. 1827-1834; R. II. 679. There is also a continuous and uninterrupted flow in interstate commerce of gas from the facilities of Phillips in Oklahoma to those of Cities Service Gas Company and then into lines of various distributing companies in other states, including Kansas City, Missouri. R. I. 287.

Said stipulation also establishes that prior to and at all times since the date of the first contract with said pipeline companies, Phillips knew that that the gas to be delivered to each would be transported to areas of ultimate consumption in other states. R. V. 1829, 1830-1831, 1832, 1833-1834.

(e) *Phillips Petroleum Company conceded that its sales of natural gas to the 5 interstate pipeline companies are sales in interstate commerce for resale.* In its brief submitted to the FPC (page 38) Pillips stated it "* * * does not contend that the sales to the five pipeline companies * * * are not sales in interstate commerce." This concession is recognized by the FPC in its opinion. R. V. 1712, 1740.

(f) *The FPC found (1) that the sales of natural gas by Phillips to the 5 pipeline companies are sales in interstate commerce for resale for ultimate public consumption, and (2) that Phillips is engaged in the transportation of natural gas in interstate commerce.* In its opinion the majority of the FPC states (R. V. 1712):

"* * * For it [Phillips] correctly concedes that the sales involved here are sales in interstate commerce for resale. Nor can there be any doubt that Phillips' movement of that gas from the points of production to the points of sale constitutes transportation in interstate commerce as a matter of constitutional law. Indeed, this is in part implicit in Phillips' concession respecting the sales."

Again (R. V. 1740):

"* * * It [Phillips] concedes, and on the record here it could not deny, that the sales involved are sales 'in interstate commerce of natural gas for resale for ultimate public consumption' within Section 1(b)'s affirmatively stated coverage of the Act when considered independently of the exemption of production and gathering. Also, its operations clearly include the 'transportation of natural gas in interstate commerce,' similarly within that affirmatively stated coverage when considered independently of the exemption of production and gathering."

(2) *The undisputed facts negative any conflict between the regulatory efforts of the FPC and those of regulatory agencies of the States of Texas, New Mexico and Oklahoma.*

The FPC has regulated companies reporting to it as "natural gas companies" which are engaged in producing and processing natural gas in Texas, Oklahoma, and New Mexico. R. II. 539-540, 479-80, 482-6, 505-8, 576-87, 696-8, 727. Despite this the record shows no actual conflict between the FPC regulation and state regulatory efforts. R. II. 696-699. No witness for the states claimed any con-

flict had taken place, but to the contrary, their testimony confirmed that there had been no conflict. R. II. 478-489, 505-508, 539-546, 550-551, 576-587, 612.

The States called as witnesses on this subject Messrs. W. J. Murray, Jr., a member of the Texas Railroad Commission (R. II. 383), Jack K. Baumel, chief engineer of said Commission (R. II. 375), Elmer Capshaw, an engineer employed by Oklahoma Corporation Commission (R. II, 602), Ray C. Jones, a member of said Commission (R. II. 607), and Richard R. Spurrier, state geologist and secretary of the New Mexico Oil Conservation Commission (R. II. 521).

Mr. Murray testified that the primary concern of the Texas Commission was conservation of oil and natural gas, and testified at considerable length as to what was done to avoid waste and promote conservation of natural gas. Basically, the solution is to first reduce flaring of natural gas, especially casing head gas, to a minimum and obtain a maximum recovery of gas from the wells. The various methods followed to accomplish this and the reasons therefor appear in the record. R. II. 388-401. He also detailed specific types of regulation promulgated by the Texas Commission such as relate to drilling, spacing of wells, fixing of allowables and proration whereby the amount of gas that may be produced from each well is fixed. R. II. 385-386. The witness testified that price played a part in conservation, both of casing head and dry well gas. As to the latter he asserted a higher price increased the incentive to obtain maximum recovery of gas in the ground. R. II. 437-439. The building of interstate pipe lines such as that of El Paso Natural Gas Company which

provides a market for casing head gas also plays a vital part in its conservation. R. II. 492-493.

When the time came to point to specific actual conflicts, none were shown. Mr. Murray stated there were three *possible* conflicts based upon an *assumption* that if the FPC took jurisdiction over a particular company which had certain gas reserves dedicated to a particular pipeline company, a conflict could exist if the FPC were to insist that the first company was to draw on said reserves and the Texas Commission were to require said company (1) to take its "allowables" from some other field, (2) to use casing head gas ahead of gas from gas wells in said reserves, (3) to pump the gas from said reserves back into the ground for repressuring. R. II. 412-413, 419-422. The witness was further asked to assume that a certain producer was required to utilize casing head gas to prevent flaring and to further assume the FPC was to step in and lower the price of the gas, and then answer whether the producer would find it economically feasible to discontinue utilization of the casing head gas. R. II. 450. The witness expressed disbelief in correctness of the assumptions (R. II. 451-452) but after considerable discussion and after a further question which assumed that the producer "could not comply with that order as a result of having been regulated by some outside agency that would materially interfere with your conservation problems," answered the question "yes." R. II. 452. The witness was further asked to assume that such a company was required to get a certificate of public convenience from the FPC to build a pipe line to comply with an order of the Texas Commission requiring utilization of casing head gas and to prevent its flaring. R. II. 466-468. Then in response to a question whether a "con-

flict" would exist, the witness finally said if the Texas order had a certain date for compliance and the FPC had not yet given its authority there would be a conflict. He also stated to his knowledge they had had no such instance like this. R. II. 470.

On cross-examination Mr. Murray completely negatives the basis of any conflict. With respect to his testimony on direct concerning "conflict" based on hypothetical questions he stated "I may be completely in error. None of the types of regulation that we have discussed might result. * * *" R. II. 477-478. He was asked specifically to state whether there had been any conflict between regulation of the Texas Commission and that of the FPC with respect to specific companies producing and processing gas in Texas reporting to the latter as "natural gas companies," namely, Canadian River Gas Company, Panhandle Eastern Pipe Line Company, Cities Service Gas Company, Lone Star Gas Company, and Texoma Natural Gas Company and other companies, and stated there had been none. R. II. 478-485, 505-508. Murray stated he knew of no case where the FPC had attempted to interfere with Texas regulation, and "we are under no real apprehension that you will." R. II. 505-506.

Murray also conceded that there are no conservation conditions now or in the foreseeable future which would interfere with the allowables set by the allocation and proration orders in the Texas-Hugoton Field. R. II. 509. Murray claimed no authority for the Texas Commission to fix a minimum price for gas and said that "we don't want it." R. II. 465. He also conceded that when monopoly conditions arose state regulation was necessary and "I would

consider the same would apply on an interstate operation, *that it would have to be regulated.*" R. II. 510. (Emphasis ours.)

By reason of a statement in the FPC brief, p. 86 to the effect that Commissioner Murray summarized his testimony by asserting that there is no jurisdiction the FPC might take over Phillips without conflict resulting, citing R. II. 478-9, we direct attention to the specific questions and answers as follows which disprove that statement in the FPC brief (R. II. 478-9):

"Q. (Interrupting) You think that? You think there would be that conflict?

"A. I may be completely in error. None of the types of regulations that we have discussed might result, but knowing no more about the Federal Power Commission's intention or responsibilities than I do, my presumption has been and it is purely a presumption that if they did take jurisdiction it would be for the purpose of issuing regulations of the sort that have been described to me in these questions, and if those regulations of that sort were issued, I do believe that conflict would result.

"Q. In other words, your answers were not general answers but with the specific answers to the questions you had before you at the time you made your answer?

"A. Yes, sir; even though they were making specific assumptions, they were still rather general, but not so general as to say if the Federal Power Commission takes any jurisdiction over Phillips would a conflict result, and I never did intend to say any jurisdiction would result.

"Q. You mean any conflict would result?

"A. That is right, if they took any jurisdiction, but I can't quite conceive, I may be in error, of what jurisdiction they would take over Phillips without conflict resulting."

Mr. Baumel was also questioned regarding the existence of any "conflict" between regulation by the Texas Commission and that of the FPC concerning said producers doing business in Texas who report to the FPC. He stated there had been no conflict. R. II. 576-587. He also denied giving any testimony to the effect there would be a conflict if Phillips were declared a "natural gas company" (R. II. 582), and further that if the FPC regulated the rate for the sale of natural gas by Phillips at the Sherman plant "it wouldn't interfere with our allocation and proration orders, no." R. II. 591.

Mr. Jones of the Oklahoma Corporation Commission stated that the chief reason for said Commission's intervention was because it "feels" that if the FPC assumed jurisdiction it would regulate "rates" which "might" interfere with orders of the Oklahoma Commission fixing a minimum price for gas at the well head in the Guymon-Field. R. II. 609. On cross-examination he admitted that if the rate set by the FPC was higher than the Oklahoma well head minimum, he could think of no interference with the jurisdiction of the Oklahoma Commission and did not then know of any other possible conflict. R. II. 612.

Mr. Spurrier of New Mexico asserted first that price played a part in the conservation of gas in that a higher price tended to reduce the amount of flaring and also resulted in wells being kept in production for a longer period.

He also admitted that the availability of a market furnished by the construction of an interstate pipe line played an equally important part along with price. R. II. 548. No minimum price at the well head had ever been fixed, assuming the New Mexico Commission had jurisdiction to do so. R. II. 532-533.

The only testimony given by Spurrier as to any "conflict" was in response to hypothetical questions based on assumptions which compelled the desired answer. Thus, at one point he was asked to assume the FPC attempted to take jurisdiction "over producers and gatherers of gas *as to well spacing*, would that conflict?" The answer very naturally was "it certainly would." R. II. 535. A similar type of question with a similar type of assumption was also asked and answered at R. II. 536. He was also asked whether there would be a conflict if the FPC fixes the price of gas to producers and gatherers of gas in New Mexico, which question was again answered "yes." R. II. 539. On cross-examination Spurrier admitted that the El Paso Natural Gas Company and Southern Union Gas Company (both of whom report to the FPC as natural gas companies) (R. II. 698-699, 726-727) complied in all respects with the rules and regulations of the New Mexico Oil Conservation Commission. R. II. 539-540. Further questioning confirmed that there had been no conflict between FPC and New Mexico regulation over these two companies. The witness stated, "I have never heard of any conflict." R. II. 543. Further testimony showing absence of conflict appears at R. II. 544, 546, 550-551. The witness concluded by indicating that if there was no conflict as to these companies there would be none if the FPC were to regulate Phillips. R. II. 551-552.

STATUTE INVOLVED

The statute involved is the Natural Gas Act (Act of June 21, 1938, ch. 556, 52 Stat. 821, as amended by Act of February 7, 1942, ch. 49, 56 Stat. 83, and Act of July 25, 1947, ch. 333, 61 Stat. 459, 15 U. S. C. §§717-717w), the material portions of which are printed in item I of the Appendix to this brief.

SUMMARY OF ARGUMENT

I.

Phillips is one of the largest sellers of natural gas in the nation. It is a producer, gatherer, transporter, and wholesaler of this product, controlling 15.22 trillion cubic feet of proven gas reserves. Its properties include 4,380 miles of pipe lines and 25 processing plants (10 more partially owned) in Arkansas, Kansas, Oklahoma, Texas and New Mexico. Phillips admits and the FPC found that in carrying on its natural gas business, Phillips sells natural gas in interstate commerce for resale for ultimate public consumption in 49 principal cities located in 14 states. It sells more gas to natural gas companies reporting to the FPC than any other company. About 50% of the gas it sells is produced by others. The sales occur after production and gathering have been completed. Phillips, as the FPC found, is also engaged in transportation of natural gas in interstate commerce. Both of these activities bring it squarely within the affirmative jurisdictional provisions of Section 1(b) of the Natural Gas Act, and each of said

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activities make it a "natural gas company" as defined in Section 2(6) of said Act.

The issue is whether Phillips, having thus brought itself within the affirmative jurisdictional provisions of the Act by voluntarily engaging in such activities, can escape FPC jurisdiction to determine whether its charges for gas sold are unjust, unreasonable or unduly discriminatory, by claiming that said sales are a part of "production or gathering" within the purview of the exemption portion of Section 1(b) of the Act.

II.

The admitted sales by Phillips of natural gas in interstate commerce for resale are beyond the constitutional powers of the states to regulate, even in absence of Congressional action. *Missouri v. Kansas Natural Gas Co.*, 265 U. S. 298, and *Public Utilities Comm. v. Attleboro Steam & Electric Co.*, 273 U. S. 83, and subsequent decisions. The identical House and Senate Committee Reports on the bill (H. R. 6586) which became the Natural Gas Act (H. R. Rep. No. 709, 75th Cong., 1st Sess.; S. Rep. No. 1162, 75th Cong., 1st Sess.) take cognizance of the regulatory "gap" thus created and establish first, that the basic purpose of Congress in passing the Act was to occupy this field in which this Court has held that the states may not act, and to thus completely close the regulatory "gap," so as to protect the ultimate consumer by effective federal regulation coordinating precisely with state regulation. Second, in denying the Federal Power Commission jurisdiction over "production or gathering" of natural gas, Congress intended only to preserve in the states, regulatory power in areas in which

they are constitutionally competent to act. Because sales for resale in interstate commerce are beyond the constitutional competence of the states, it follows that such sales cannot, as a matter of constitutional law, be included within the exempt activities, "production or gathering of natural gas," under the provisions of Section 1(b). *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, 689-690. The regulation of rates at which Phillips sells gas for resale in interstate commerce to the 5 pipe line companies here involved is a matter of national concern when the magnitude of Phillips' operations and the impact of its charges upon the millions of consumers located in 49 principal cities spread over 14 states is considered.

The identical House and Senate Committee Reports above mentioned also specifically state that matters within the affirmative jurisdictional provisions of Section 1(b) of the Act (i.e., "transportation of natural gas in interstate commerce" and "sale in interstate commerce of natural gas for resale for ultimate public consumption") are not within the negative exemption, "production or gathering of natural gas." Cases adopting this view are *Colorado Interstate Gas Co. v. Federal Power Comm.*, 324 U. S. 581, 598, 602-3; *Interstate Natural Gas Co. v. Federal Power Comm.*, (C. A. 5) 156 F. 2d 949 (1946) 951, affirmed 331 U. S. 682; *Peoples Natural Gas Co. v. Federal Power Comm.*, 75 App. D. C. 235, 127 F. 2d 153 (1942), certiorari denied 316 U. S. 700.

While the foregoing propositions of constitutional law make it unnecessary to so contend, Phillips' sales for resale in interstate commerce take place in fact *after* "production and gathering" of natural gas have been completed.

The statements of the FPC that such sales are the end product of production or gathering, or at least an exempt incident thereof are pure conclusions of law based on bare assertion coupled with faulty reasoning which proceeds thus: production and gathering is a means to an end, therefore everything done to arrive at that end is "production and gathering." The end, in effect, is claimed to be included in the means to the end. Such reasoning assumes as true the conclusion to be reached.

The fact that the sales for resale in interstate commerce by Phillips to Michigan-Wisconsin Pipe Line Company take place after production, gathering and processing have ended, is also confirmed by *Michigan-Wisconsin Pipe Line Co. v. Calvert*, 347 U. S. 157.

III.

Petitioners' contentions (1) that the only sales within the constitutional "gap" are sales for resale in interstate commerce made by a pipe line company to distribution companies, and that sales made by a company like Phillips to a pipe line company at the production end of the line are exempt; and (2) that in enacting the Natural Gas Act, Congress intended only to regulate the sales for resale in interstate commerce by a pipe line company to a local distribution company are without merit.

Such contentions run directly counter to *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, involving sales for resale in interstate commerce "made in the *field*" (emphasis ours) by Interstate to 3 pipe line companies. This Court held that such sales were beyond the con-

stitutional competence of the States to regulate; that their regulation was predominately a matter of national, as contrasted to local, concern; that unreasonable charges exacted at this stage of the interstate movement would be perpetuated in large part in fixed items of costs which would be passed on to the subsequent purchasers including the ultimate consumer. "It was to avoid such situations the Natural Gas Act was passed."

Such contentions also run counter to *Peoples Natural Gas Co. v. Federal Power Comm.*, 75 App. D. C. 235, 127 F. 2d 153 (1942), certiorari denied 316 U. S. 700, where it was held, the affirmative jurisdictional provision language of Section 1(b) of the Act relating to sales for resale in interstate commerce "exactly covered" the sale for resale in interstate commerce in the State of production to the pipe line company, and on rehearing (p. 157 *et seq.*, 127 F. 2d) that the statutory language covered sales in the State the gas originates as well as the State of destination.

These cases correctly delineate the constitutional "gap" and affirm Congress' intention to include within the scope of the Natural Gas Act sales for resale in interstate commerce in the *producing* as well as the receiving states. Congress' intent is further evidenced (1) by identical House and Senate Committee Reports on H. R. 6586 which became the Natural Gas Act (H. R. Rep. No. 709, 75th Cong., 1st Sess.; S. Rep. No. 1162, 75th Cong., 1st Sess.); (2) by statements by Senator Wheeler, manager of the bill on debate in 81 Cong. Rec. 9314 (footnote 36, p. 63, FPC brief) and 83 Cong. Rec. 2422-2424, and (3) by other material cited in this brief, including the Federal Trade Commission Report of 1935.

IV.

Petitioners attempt to resort to legislative history of predecessor bills despite the fact that this court refused to review it again in 1949. *Federal Power Commission v. Panhandle Eastern Pipe Line Co.*, 337 U. S. 498. In any event any proper study of the legislative history of the Acts should be confined to a determination of Congressional intent as shown in the identical House and Senate Committee Reports on H. R. 6586 (Natural Gas Act), H. R. Rep. 709, 75th Cong., 1st Sess., S. Rep. No. 1162, 75th Cong., 1st Sess. (reproduced in full pp. 52-70 of the Appendix to this brief).

Petitioners' main reliance is on H. R. 11662, 74th Cong., 2nd Sess., and testimony of Dozier DeVane, a former Solicitor of the FPC concerning the scope of the bill. This was a predecessor bill having jurisdictional provisions differing materially from H. R. 6586, 75th Cong., 1st Sess., which became the Natural Gas Act. H. R. 11662 applied only to transportation in high pressure mains in interstate commerce and contained no language such as that in H. R. 6586 giving FPC jurisdiction not only over "transportation of natural gas in interstate commerce" but also over "sales in interstate commerce of natural gas for resale." As shown by the identical Senate and House Committee Reports, this latter language was deliberately inserted to close the constitutional "gap" arising from the constitutional inability of States to regulate sales for resale in interstate commerce.

The DeVane statements on H. R. 11662 have been presented to this and other Courts and have been rejected or not followed in cases cited at pp. 55-6 of this brief.

In any event the DeVane statements do not refer to sales for resale in interstate commerce such as those by Phillips to the 5 interstate pipe lines here involved. From their context, it is clear that at most they referred to sales at the wellhead. In fact, on the basis of the DeVane testimony, Phillips, as a purchaser of large quantities of gas from others, which it sells for resale, would have been subject to FPC jurisdiction even under H. R. 11662.

Petitioners next resort to the transparent expediency of "defining Phillips out of the Act" by employing a self-serving definition of the term "gathering" which they assert *includes* the enormous sales of natural gas for resale in interstate commerce *after* the physical "gathering" has been completed. By thus "defining" gathering as embracing sales, they come to the erroneous conclusion that the sales are *outside* the regulatory gap. To give such self-serving definition the exalted function of overruling clear statutory language, clearly expressed legislative purpose, and a decision of this Court, is rather a novel idea to say the least. Not even opinions of legislators expressed years after the adoption of acts which they authored are accepted as authoritative by the courts. *United States v. United Mine Workers*, 330 U. S. 258, 281.

In addition to being directly contrary to the clearly expressed Congressional intent, the definition used by petitioners is contrary to the common and accepted meaning of the word, and also as it is used in the industry according to recognized texts and dictionary definitions. Further, the opinion testimony of Phillips' employes is contrary in substance to the opinions expressed by the many industry supporters of the Moore-Rizley (H. R. 4051, 80th Cong.) and Kerr (S. 1498, 81st Cong.) bills. And finally their opinions

are flatly contrary to the opinion of the FPC in the *Interstate* case, 3 F.P.C. 416, 420-1, where sales in interstate commerce were distinguished from production or gathering. The opinions of these employes are also contrary to the definitions given by the FPC in its brief in this Court in the *Interstate* case.

V.

The doctrine of administrative construction cannot be invoked to work a result contrary to the plain provisions of the statute, a result sought by petitioners here. But in any event, the FPC has never adopted a consistent view on the question here presented to entitle its interpretation to any weight whatsoever. The FPC acknowledges this in its brief in this case when it says, pp. 71-72:

> "Notwithstanding this uniform course of interpretation revealed by decided Commission cases, *there has been some uncertainty as to the applicability of the 'gathering' exception to the situation here involved.* * * *" (Emphasis supplied.)

This is confirmed by authority cited pp. 60-62 this brief, including *Interstate Natural Gas Co.*, 3 F.P.C. 416 (1943) 420-421, which takes a position squarely contrary to that of the FPC here. The fact is that the FPC theory in the *Interstate* case (see quotation p. 61 this brief) fully supports our position here.

Also, in the debate on the Kerr Bill (S. 1498, 81st Cong., 2nd Sess.) Senator O'Mahoney stated that "the Federal Power Commission has wobbled all over the face of the earth with respect to this problem." 96 Cong. Rec. 4171.

VI.

The final claim is that FPC jurisdiction is excluded because of alleged conflict with State regulatory efforts based on a *dictum* in *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, 690, which is inapplicable here because, when read in context, the language relied on refers only to sales which the States are constitutionally competent to regulate consistent with the Commerce Clause. Hence such language would not apply to sales for resale in interstate commerce by Phillips to the 5 pipe line companies, since such sales are beyond the constitutional competence of the States to regulate. In the Court of Appeals, the FPC relied on this language. It does not do so now, a significant indication it does not believe in the soundness of such contention.

In any event, the Court has said a conflict must be clearly shown, as exceptions to the primary grant of jurisdiction are to be strictly construed (*Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, 690) and where there are no opposing directives, it is unnecessary to resolve conflicting claims between State and Federal regulation. *Panhandle Eastern Pipe Line Co. v. Michigan P. S. Comm.*, 341 U. S. 329, 336.

The record here shows no opposing directives and while there is much conjecture and speculation, the record is crystal clear that there is no actual conflict in fact.

In essence, the entire claim of conflict is based on the proposition that conservation of gas depends upon price, and if FPC were to fix a rate for the sales of natural gas for resale in interstate commerce to the 5 interstate pipe

line companies, the fixing of such a rate would affect State conservation efforts. The decision of the FPC was based on that proposition. The claim is identical to that rejected in *Federal Power Comm. v. Hope Natural Gas Company*, 320 U. S. 591, 607-609, 613-614; *Colorado-Interstate Gas Co. v. Federal Power Comm.*, 324 U. S. 581, 600, 603. At most, until FPC fixes an actual *rate*, we are simply talking about possibilities and no sufficient conflict is shown to prevent or avoid FPC jurisdiction as a matter of law.

ARGUMENT

I.

THE ACTIVITIES OF PHILLIPS PETROLEUM COMPANY FALL WITHIN THE AFFIRMATIVE JURISDICTIONAL PROVISIONS OF SECTION 1(b) AND IT IS A NATURAL GAS COMPANY AS DEFINED IN SECTION 2(6) OF THE NATURAL GAS ACT.

a. The question involved concerns the status of Phillips in light of its specific acts and transactions. There is no attempt in this case to try the natural gas industry or to determine the status of all claiming to be "independent producers and gatherers."

The question is whether Phillips is a "natural gas company" as defined by Section 2(6) of the Natural Gas Act. The answer depends upon whether it engages in acts or transactions which bring it within the jurisdictional provisions of Section 1(b) of that Act and, if it does, whether

such acts are within the negative language of that section excluding FPC jurisdiction over "production or gathering of natural gas." The issue is, therefore, much narrower than petitioners attempt to make it appear that this case involves the question whether the so-called "independent producer and gatherer" and sales for resale made by the so-called "independent producer and gatherer" are subject to FPC jurisdiction under the Natural Gas Act. (Phillips brief, p. 18; FPC brief, p. 20.)

There is no attempt in this case to try the natural gas industry or determine the status of all claiming to be "independent producers and gatherers." The record in this case concerns only Phillips, and to go beyond that would result in giving an advisory opinion upon hypothetical facts.

Reduced to its bare essentials the position of petitioners is that the Natural Gas Act was never intended to apply to "independent producers and gatherers" or sales of natural gas in interstate commerce for resale made by them; that Phillips is an "independent producer and gatherer" from which petitioners contend that it follows that Phillips is not subject to FPC jurisdiction under the Natural Gas Act.

The term "independent producer and gatherer" is not defined in the Natural Gas Act. Neither is it a designation having a commonly understood meaning as a legal term. It is a manufactured or self-coined term couched in some of the words of that portion of Section 1(b) of the Act which excludes FPC jurisdiction over the activities of "production or gathering of natural gas." This might lead the uncritical to the erroneous conclusion that a company to

which such a label is applied engages, as a matter of fact, only in the exempt activities of "production or gathering of natural gas." But the most claimed for its meaning by petitioners, who presume to define it, is that an "independent producer and gatherer" is one who is neither affiliated with nor owned by a pipe line company. See Phillips brief, p. 4; FPC brief, p. 6. Such a definition obviously lacks precision, and it is clearly apparent that a company which is neither affiliated with nor owned by a pipe-line company could still be engaged in making sales for resale in interstate commerce or in doing other acts which would make it a natural gas company as defined in the Natural Gas Act. Petitioners' designation "independent producers and gatherers" is not based on, or related to activities which are jurisdictional under the Natural Gas Act.

Hence, it does not follow that Phillips is exempt from FPC jurisdiction because it claims the label "independent producer and gatherer." Just because of this self-serving designation it cannot be assumed it does not engage in any act or transaction making it a natural gas company as defined in the Act. Rather the specific acts and transactions engaged in by it must be examined. This we now proceed to do.

b. FPC findings make Phillips a "natural gas company" under the Act.

The Power Commission found (a) that the sales by Phillips to the 5 interstate pipeline companies are sales in interstate commerce of natural gas for resale for ultimate public consumption, and (b) that Phillips is engaged

in transportation of natural gas in interstate commerce, both within the affirmative jurisdictional provisions of Sec. tion 1(b) of the Act.* R. V. 1712, 1740. Either or both make Phillips a "natural gas company" as defined in Section 2(6) of the Natural Gas Act. *Federal Power Comm. v. East Ohio Gas Co.*, 338 U. S. 464, 468.

c. *The admitted sales for resale in interstate commerce by Phillips cannot as a matter of constitutional law fall within the statutory exemption over "production or gathering of natural gas." Petitioners fail to face up to and meet this decisive constitutional question.*

The sales for resale in interstate commerce to the five interstate pipeline companies cannot as a matter of law fall within the portion of Section 1(b) of the Natural Gas Act which provides the provisions of said Act shall not apply "to the production or gathering of natural gas."

The basic issue is one of statutory construction, i.e. what did Congress intend to include in the words "production or gathering of natural gas." The answer has heretofore been supplied by this Court. It is based on the constitutional doctrine that sales for resale in interstate commerce are beyond the constitutional powers of the states to regulate, even in the absence of Congressional action. The answer follows. By reason of this constitutional doctrine, the sales here involved could not be included within the words "production or gathering of natural gas." A fair consideration of the issue in this case imposes

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*The exact language of the FPC is quoted pages 8-9, ante.

the obligation on petitioners to meet the constitutional question. Nowhere have petitioners met this obligation and faced this issue squarely. Their ommission in this respect is not without significance. In *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, this Court said the issue involves the jurisdiction of the FPC "to regulate sales made in the field by petitioner [Interstate] to three pipeline companies, each of which transports the gas so purchased to markets in States other than Louisiana." 331 U. S. 682, 684. The company claimed *inter alia* such sales for resale were a part of "production and gathering of natural gas" and hence not subject to FPC jurisdiction. This Court said pages 689-690:

> "The Company contends, however, that regardless of whether the sales in question are in interstate commerce, those transactions fall within the clause of section 1(b) specifically excepting from the Commission's jurisdiction regulation of '* * * the production or gathering of natural gas.' In evaluating that contention we should not lose sight of the objectives sought to be accomplished by Congress in passing the Natural Gas Act.
>
> "In a series of decisions announced prior to the passage of the act, this Court had held that, although Congress had not acted, the regulation of wholesale rates of gas and electrical energy moving in interstate commerce is beyond the constitutional powers of the States." Petitioner, relying in part upon the principles established by those cases, has successfully avoided regulation by the Louisiana Public Service Commission."
>
> As was stated in the House Committee report, *the 'basic purpose' of Congress in passing the Natural Gas Act was to 'occupy this field in which the Supreme*

Court has held that the States may not act."[13] In denying the Federal Power Commission jurisdiction to regulate the production or gathering of natural gas, it was not the purpose of Congress to free companies such as petitioner from effective public control. *The purpose of that restriction was, rather, to preserve in the States powers of regulation in areas in which the States are constitutionally competent to act. * * **" (Emphasis ours.)

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[13]**Missouri v. Kansas Natural Gas Co.**, 265 U. S. 298 (1924); **Public Utilities Comm'n v. Attleboro Steam & Electric Co.**, 273 U. S. 83 (1927); **State Corp. Comm'n. v. Wichita Gas Co.**, 290 U. S. 561 (1934).

"[14]See note 9, supra.

"[15]H. R. Rep. No. 709, 75th Cong., 1st Sess., 2."

It follows as a matter of law from the language quoted above and particularly that in italics, that the sales for resale in interstate commerce involved in the instant case by Phillips to the 5 interstate pipeline companies cannot be included in "production or gathering of natural gas" as those words are used in Section 1(b) of the Natural Gas Act, since such wholesale sales are beyond the constitutional competence of the States to regulate.[7] The cases

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[7]The proposition that the Natural Gas Act was designed to give the FPC jurisdiction over matters including sales for resale of natural gas in interstate commerce which the states could not constitutionally regulate under the Commerce Clause has been emphasized by this court in cases before and subsequent to **Interstate Natural Gas Co. v. Federal Power Comm., supra.** The cases are: **Illinois Natural Gas Co. v. Central Ill. Public Service Co.**, 314 U. S. 498; **Federal Power Comm. v. Hope Natural Gas Co.**, 320 U. S. 591, 609-10; **Colorado Interstate Gas Co. v. Federal Power Comm.**, 324 U. S. 581, 599-600; **Panhandle Eastern Pipe Line Co. v. Public Service Comm. of Indiana**, 332 U. S. 507, 516; **Federal Power Comm. v. Panhandle Eastern Pipe Line Co.**, 337 U. S. 498, 502-4; **Panhandle**

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above cited by the Court in the *Interstate* case so hold and in addition the Court in the *Interstate* case, said with reference to the sales in the field by Interstate to the 3 interstate pipeline companies therein involved for resale, (331 U. S. 682, 692-693):

> "* * * We have held that these sales are in interstate commerce. It cannot be doubted that their regulation is predominately a matter of national, as contrasted to local concern. All the gas sold in these transactions is destined for consumption in States other than Louisiana. Unreasonable charges exacted at this stage of the interstate movement become perpetuated in large part in fixed items of costs which must be covered by rates charged subsequent purchasers of the gas, including the ultimate consumer. It was to avoid such situations that the Natural Gas Act was passed."

For the same reason, we submit that the regulation of the rates Phillips charges the 5 interstate pipeline companies for gas sold them for resale is a matter of national and not local concern. This conclusion is compelled by the

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Eastern Pipe Line Co. v. Michigan Public Service Comm., 341 U. S. 329, 334-335. In **United States v. Public Utilities Comm. of California**, 345 U. S. 295, referring to Part II of the Federal Power Act and the **Attleboro** case (**Public Utilities Comm. v. Attleboro Steam & Electric Co.**, 273 U. S. 83), it is said, page 311:

> "Part II is a direct result of Attleboro. They are to be read together. The latter left no power in the states to regulate licensees' sales for resale in interstate commerce, while the former established federal jurisdiction over such sales. Discussion of the constitutional problem as reflected in that statute and the Natural Gas Act in recent cases supports this conclusion. Especially in the litigation arising under the Gas Act has this Court expressed the view that the limitations established on Commission jurisdiction therein were designed to coordinate precisely with those constitutionally imposed on the states. * * *"

nature and magnitude of the operations by Phillips and the impact of its charges upon the consuming public in distant states. The principal facts are stated on pages 3-8, *ante*. It is there pointed out that Phillips is one of the largest, if not the largest supplier of natural gas in the country, claiming in 1949 the largest reserves in the country, with total sales of 499,699,366 Mcf. in 1950. R. I. 151; R. V. 1689. The 5 interstate pipeline companies to which Phillips sells natural gas transport and resell that gas to distributing companies located in 14 states ranging from California on the west to Michigan and Ohio on the east and Minnesota on the north, plus the province of Ontario, Canada, including 49 of the principal cities of the country such as Detroit, Cleveland, Akron, Toledo, Milwaukee, Minneapolis and St. Paul, Omaha, Kansas City, Missouri, San Francisco, Los Angeles and San Diego. Phillips is the sole supplier of gas for Michigan-Wisconsin Pipe Line Company, which serves distributing companies in Missouri, Iowa, Michigan and Wisconsin. R. V. 1692-1711, 1827-1834; R. I. 285-286; Exhibit 1-A, R. III. 753-755; R. II. 621. Natural gas Phillips sells Michigan- Wisconsin Pipe Line Company and Panhandle Eastern Pipe Line Company supplies consumer markets with a population of about 12 million people. *Michigan-Wisconsin Pipe Line Company v. Calvert*, 347 U. S. 157, 162, n. 3.

Recognition that these sales for resale in interstate commerce here involved are not a local activity is also found in *Michigan-Wisconsin Pipe Line Co. v. Calvert, supra*, where the Court, speaking about the Texas tax on the "taking" of gas from Phillips by Michigan-Wisconsin, said, p. 167:

> "* * * But receipt of the gas in the pipeline is more than its 'taking'; from a practical standpoint it is its 'taking off' in appellants' carrier into commerce; in reality the tax is, therefore, on the exit of the gas from the State. This economic process is inherently unsusceptible of division into a distinct *local activity* capable of forming the basis for the tax here imposed, on the one hand, and a separate movement in commerce, on the other. * * *" (Emphasis ours.)

This holding is especially pertinent here when it is considered that the point of "taking" is a part of (and at the identical point) of the sales for resale in interstate commerce by Phillips to Michigan-Wisconsin which are relied on, among others, to establish jurisdiction in the instant case.

The only possible effective regulation of the rate at which Phillips sells natural gas to the 5 interstate pipeline companies would be at the national level. State regulatory commissions such as the Public Service Commission of Wisconsin, which fix the rate at which local distributing companies such as Milwaukee Gas Light Company (which buys gas from Michigan-Wisconsin Pipe Line Company, which purchases its sole supply of gas from Phillips) sell to the ultimate consumer, would be unable because of the existence of state lines to make any effective inquiry and determination as to the reasonableness of the rate at which Phillips sells to the pipeline company in the State of Texas. The situation is recognized in the *Attleboro* case (*Public Utilities Comm. v. Attleboro Steam & Electric Co.*, 273 U. S. 83), where the company generating electricity and selling it for resale was in Rhode Island and the company

buying the energy and selling it to the ultimate consumer was in Massachusetts. The Court said, page 90:

> "* * * Plainly, however, the paramount interest in the interstate business carried on between the two companies is not local to either State, but is essentially national in character. The rate is therefore not subject to regulation by either of the two States in the guise of protection to their respective local interests; but, if such regulation is required it can only be attained by the exercise of the power vested in Congress. * * *"

The primary purpose of the Natural Gas Act was to protect the ultimate consumer by *effective* regulation. *Panhandle Eastern Pipe Line Co. v. Public Service Comm. of Indiana,* 332 U. S. 507, 520. The Natural Gas Act was designed to close any gap in the regulatory scheme. In H. R. 709, 75th Congress, 1st Session, the House Committee on Interstate and Foreign Commerce said with respect to H. R. 6586, which became the Natural Gas Act, (page 3):

> "Your committee believes that this legislation is highly desirable to fill the gap in regulation that now exists by reason of the lack of authority of the State commissions."

If the judgment below is reversed the "gap" Congress intended to close will be revived and this court will have reversed the long line of cases above cited and relied on by the Court in the *Interstate* case (and other cases cited *supra* p. 30 footnote 7) which hold that sales of natural gas or electric energy in interstate commerce for resale, of the character involved in this case, are beyond the constitutional powers of the states to regulate, even in the absence of Congressional action.

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The recent case of *Michigan-Wisconsin Pipe Line Co. v. Calvert*, 347 U. S. 157, also supports the position that the sales for resale here involved are beyond the constitutional competence of the states. It involved the Texas "gathering tax" which was designed to avoid taxing the sale of natural gas for resale from Phillips to Michigan-Wisconsin but attempted to carve the "taking" of the gas by Michigan-Wisconsin from the sale and to tax the "taking" of the gas. The Court held that the sale could not thus be separated into parts and struck down the tax because of its conflict with the Commerce Clause. Obviously any attempt to tax the sale would also be a prohibited interference with interstate commerce.

Cities Service Gas Co. v. Peerless Oil & Gas Co., 340 U. S. 179, is distinguishable. This case sustained an order of the Oklahoma Corporation Commission fixing a minimum price of 7-cents Mcf. *at the well head* in the Guymon-Hugoton Field on the ground the state had a legitimate local interest in the conservation of natural gas. We submit the case does not hold that the states can constitutionally regulate sales of natural gas in interstate commerce for resale, such as are involved in the sales by Phillips to the 5 pipeline companies here involved. *No such question was before the court.* The fact that at page 186 of 340 U. S. the court referred to and applied the doctrine of the *Cooley* case (*Cooley v. Port Wardens*, 12 How. (U. S.) 299 is a clear recognition that the particular regulatory effect there involved was a matter of "local" concern and hence not in the same category as the sales for resale by Phillips to the 5 pipeline companies here involved. For reasons stated pages 30-34, *ante*, such sales for resale have always been regarded as being of national concern and affecting

the national interest and hence beyond the constitutional power of the states even in absence of Congressional action.

Further, this Court in the aforesaid case clearly limited the effect of its decision by stating (340 U. S. 179, 188):

> "Appellant does not contend that the orders conflict with the Federal authority asserted by the Natural Gas Act, 52 Stat. 821 (1938), 15 U. S. C. §717 *et seq.* (1948). The Federal Power Commission has not participated in these proceedings. Whether the Gas Act authorizes the Power Commission to set field prices on sales by independent producers, or leaves that function to the states, is not before this Court."

Finally, this Court in *Federal Power Comm. v. East Ohio Gas Co.*, 338 U. S. 464, states that irrespective of any changes in constitutional law since the enactment of the Natural Gas Act, the scope of said Gas Act must be determined by the "gap" as it existed at the time of its enactment. Thus it is said, page 472 of 338 U. S.:

> "* * * But *prior* constitutional decisions, not what we have since decided or would decide today, form the measure of the gap which Congress intended to close by this Act. *Illinois Gas Co. v. Public Service Co.*, 314 U. S. 498, 508; and see *Parker v. Motor Boat Sales*, 314 U. S. 244, 250."

d. The sales for resale involved as a matter of fact take place after completion of "production or gathering."

There is no dispute as to the nature and location of the physical plant owned and operated by Phillips and how it is operated. The conclusions of the majority of the FPC reached at R. V. 1742-44 to the effect the sales by Phillips to the five interstate pipeline companies for resale in interstate commerce are "the end product of production and gathering" and "part of Phillips' gathering business, or at least an exempt incident thereof" are based upon bare assertion coupled with fallacious reasoning which goes as follows: "production and gathering" is a means to an end, therefore every thing that is done to arrive at that end is part of "production and gathering." R. V. 1742-44. Such reasoning assumes as true the conclusion attempted to be proved.

In any event these so-called "findings of fact" made by the majority of the FPC on this point are pure conclusions of law. The situation here is even stronger than that in *United States v. Appalachian E. P. Co.*, 311 U. S. 377, where the ultimate question was whether a certain stream was navigable. The Court said, p. 403, there was no real disagreement as to the physical and historical evidentiary facts but there was disagreement over the ultimate conclusion of navigability to be drawn therefrom. The Court refused to apply the rule that this was a fact case where the findings had been concurred in by two courts and hence would be accepted by the Supreme Court in the absence of clear error. The Court said (p. 404) the case must be decided in the light of the previous decisions and particular cir-

cumstances presented by the particular river involved, and continued:

> "* * * To these circumstances certain judicial standards are to be applied for determining whether the complex of the conditions in respect to its capacity for use in interstate commerce render it a navigable stream within the constitutional requirements. Both the standards and the ultimate conclusion involve questions of law inseparable from the particular facts to which they are applied."

The reviewing court is free to review not only conclusions of law, but also determinations of mixed law and fact made by an administrative tribunal. *Bogardus v. Commissioner of Internal Revenue*, 302 U. S. 34, 38-9:

> "The Board of Tax Appeals concluded that, from a careful consideration of all the evidence, 'the payments made by Unopco to the petitioners and others were additional compensation in consideration of services rendered to Universal and were not tax-free gifts.' This, as we recently have pointed out, is 'a conclusion of law or at least a determination of a mixed question of law and fact. *It is to be distinguished from the findings of primary, evidentiary or circumstantial facts. It is subject to judicial review and, on such review, the court may substitute its judgment for that of the board.' Helvering v. Tex-Penn Oil Co.*, 300 U .S. 481, 491; *Helvering v. Rankin*, 295 U. S. 123, 131. If the conclusion of the board be regarded as a determination of a mixed question of law and fact, it has, as we shall presently show, no support in the primary and evidentiary facts. The ultimate determination, therefore, should be overturned, under the doctrine of *Helvering v. Rankin, supra*, as a matter of law." (Emphasis supplied.)

It is conceded the final commingling of gas occurs in each case in the processing plant. Then after processing in the plant the gas is carried in pipes from 200 to 1490 feet where it is delivered and sold in interstate commerce for resale to the interstate pipeline companies for transportation and sale. Phillips brief, p. 7, 9; FPC brief, p. 8. The point of final commingling represents the ultimate point to which that gathering could possibly extend.[6] This is in accord with the common and accepted meaning of the word and also as used in the industry.[7] The FPC so advised this Court at page 31 of its brief in No. 733 October Term 1946, *Interstate Natural Gas Co. v. Federal Power Comm.* (331 U. S. 682). The FPC also advised the Court in its brief filed in the Fifth Circuit in the same case (Item V of the Appendix of this brief), pages 14-15 as follows:

> " 'Gathering' relates to the collecting of the gas from the various wells and bringing it into one place. Webster's new International Dictionary, 2nd Edition (1939) so defines the word and the trade or technical meaning

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[6]There are numerous situations where "gathering" ends prior to the time gas reaches the gasoline plant. Thus in several instances, as the FPC found (R. V. 1743), gas is carried in large diameter lines over distances to the processing plant with no gas injected or removed from said lines. R. V. 1743, 1692-3, 1697-8, 1700, 1703, 1707-8. This constitutes transportation and the FPC so found. R. 1740. For instance, Line H extends from a point in Oklahoma about 22 miles across the state line to the Sherman Plant in Texas. At a point 12½ miles out Line H-2 connects with Line H and from that point to the plant there are no other lines connecting with Line H. R. I. 171; R. V. 1692. Gas is thus transported 12½ miles in said pipe line with no volumes added or taken out. "Gathering" ends no later than when the last gas is injected into Line H. See R. II. 680-1 and also definitions cited above and at page 40, **post.**

[7]A complete discussion on the subject of whether Phillips' sales for resale in interstate commerce in fact take place after "gathering" ends appears in Commissioner Buchanan's dissent. R. V. 1774-85.

of the term is the same as its usual or popular meaning."

See also definitions of "gather" and "gathering" in Webster New International Dictionary, 2d Ed. (1946); Funk & Wagnall's New Standard Dictionary (1941).

In Petroleum Dictionary for Office, Field and Factory by Hollis P. Porter, 4th Ed., page 108, appears the following:

"*Gathering lines*: Pipes connecting production tanks at oil wells with trunk pipe lines. In natural and casing-head gas systems, the lines that connect with the wells and carry the gas to the main pipe lines."

Also in *"This Fascinating Oil Business"* by Max W. Ball it is indicated that the "gathering system" and "gathering" terminates far upstream from the gasoline plant, i.e. at the "main line" which carries the gas to the gasoline plant. Thus it is said p. 175:

"The initial pipe-line task is to get the oil from the lease tanks, scattered about the field on the various leases, to a central pump station at the beginning of the main line. This is done through 'gathering lines' from two inches to eight inches in diameter, * * *."

P. 178:

"The trunk line is to a pipe-line system what the main line is to a railroad, with the gathering system comparable to the spurs and sidings and the pump stations to the motive power. * * *"

From the examples given at footnote 8, p. 39, *ante* it is plain that there are numerous cases where gas is carried

in "trunk lines" over distances and constituting only "transportation."

Phillips asserts that the words "production or gathering" in Section 1(b) describe more than a physical activity and describe the performance of an economic function or the conduct of a business. The statutory language is *not* "production or gathering" but "production or gathering *of natural gas*" (emphasis ours) which cannot be anything other than a physical activity. The contention is also contrary to what this court has held. *Colorado Interstate Gas Co. v. Federal Power Comm.*, 324 U. S. 581, 602-3; *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682. In the case last cited this court, in referring to Section 1(b), said page 690:

> "* * * Clearly, among the powers thus reserved to the States is the power to regulate the *physical production and gathering* of natural gas in the interests of conservation or of any other consideration of legitimate local concern." (Emphasis ours.)

The attempt to include the sales for resale by Phillips involved in this case as part of "gathering" is to say a legal transaction is part of a physical act. "Gathering" is a physical act whereby gas produced from a number of wells is assembled at a common point. But after the gas leaves the processing plant (which is the ultimate of "gathering"), it is carried in pipe lines to and past the point of delivery and sale, in a constant moving stream. All that happens is that there is a legal transaction whereby title of the gas passes to the purchaser. The physical act of assembling the gas has taken place and was completed long before.

e. The fact that the sales for resale by Phillips to Michigan-Wisconsin take place after production, gathering and processing is confirmed by the Texas Gathering Tax decision.

In *Michigan-Wisconsin Pipe Line Co. v. Calvert*, 347 U. S. 157, the Court held the Texas "gathering tax" unconstitutional because of conflict with the Commerce Clause. The taxable incident was the "taking" of the gas when delivered by Phillips to Michigan-Wisconsin following its discharge from the Sherman gasoline plant. This point of "taking" is at the identical point where sale for resale in interstate commerce by Phillips occurs, and is a part of the sales which are relied on to establish jurisdiction in this case. R. V. 1694.

In its opinion this Court said (p. 166-7):

"The problem in this case is not whether the State could tax the actual gathering of all gas whether transmitted in interstate commerce or not, cf. *Hope Natural Gas Co. v. Hall, supra*, but whether here the State has delayed the incidence of the tax beyond the step where production and processing have ceased and transmission in interstate commerce has begun. Cf. *Utah Power & Light Co. v. Pfost, supra.* The incidence of the tax here at issue, as stated by the Texas appellate court, is appellants' 'taking' of gas from Phillips' gasoline plant. *This event, as stipulated, occurs after the gas has been produced, gathered and processed by others than appellants.* The 'taking' into appellants' pipelines is solely for interstate transmission and the gas at that time is not only actually committed to but is moving in interstate commerce. What Texas seeks to tax is, therefore, more than merely the loading of an interstate carrier which was condemned in *Joseph*

v. Carter & Weekes Stevedoring Co., 330 U. S. 422, 427 (1947), for the gas here simultaneously enters the pipeline carrier and moves on continuously to its outside market. 'There is no break, no period of deliberation, but a steady flow ending as contemplated from the beginning beyond the state line.' * * *" (Emphasis ours.)

Also, (p. 169):

"* * * But the tax here is not levied on the capture or production of the gas, but rather on its taking into interstate commerce *after* production, gathering and processing. * * *

* * *

"But the processing, on which this tax is *not* imposed, was done by Phillips and took place prior to the taxable event of 'taking.' As for the interference of title passing, appellees readily admit this levy was designed to avoid taxing the sale; and we think that, as a basis for finding a separate local activity, the incidence must be a more substantial economic factor than the movement of the gas from a local outlet of one owner into the connecting interstate pipeline of another. Such an aspect of interstate transportation cannot be 'carve[d] out from what is an entire or integral economic process,' *Nippert v. Richmond, supra,* at 423, by legislative whimsy and segregated as a basis for the tax. The separation must be realistic."

Thus, it is clearly recognized that the point of "taking" is after production, gathering and processing have ceased. It follows that sales for resale in interstate commerce by Phillips take place after production, gathering and processing have ended.

f. Matters specified in the affirmative provisions of Section 1(b) are not within negative provision of that section.

As we have already noted pages 8-9, *ante*, the FPC found Phillips is engaged in (1) sales in interstate commerce of natural gas for resale for ultimate public consumption, and (2) transportation of natural gas in interstate commerce, both within the affirmatively stated coverage of Section 1(b) of the Act.

The sales for resale in interstate commerce referred to are those to the 5 interstate pipeline companies previously referred to. The transportation is that described by the FPC, where it said in its opinion (R. V. 1743):

> "* * * a number of the lines leading to the plants are of large diameter and that these include some of considerable lengths. We are also aware that, for the last several miles before reaching the plant, gas in some of these lines moves at a constant volume, there being no connections into or out from the lines. * * *"[10]

There is clear authority for the proposition that matters specified in the affirmative provisions of Section 1(b) are not included in the negative provisions of that section. Thus, in H. R. 709, 75th Congress, 1st Session, the House Committee on Interstate and Foreign Commerce report-

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[10]For specific examples of such lines and record references in support, see footnote (8), **ante**. The transportation takes place after the point where no gas is either injected or taken from the specific lines involved and hence involves a real carrying of natural gas in large volumes from one point to another for considerable distances and falls within the commonly accepted definition of the word "transportation." See **Cunard S. S. Co. v. Mellon**, 262 U. S. 100, 121-2.

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ing on H. R. 6586 (which became the Natural Gas Act) said, page 3:

> "In view of the importance of section 1(b), which states the scope of the act, it seems advisable to comment on certain provisions appearing therein. It will be noted that this subsection of the bill, after affirmatively stating the matters to which the act is to apply, contains a provision specifying what the act is not to apply to, as follows:
>
> > but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.
>
> "The quoted words are not actually necessary, as the matters specified therein could not be said fairly to be covered by the language affirmatively stating the jurisdiction of the Commission, but similar language was in previous bills, and, rather than invite the contention, however unfounded, that the elimination of the negative language would broaden the scope of the act, the committee has included it in this bill. * * *"

In *Colorado Interstate Gas Co. v. Federal Power Comm.*, 324 U. S. 581, the Court, referring to Section 1(b) of the Natural Gas Act, said page 598:

> "* * * Transportation and sale do not include production or gathering. * * *"

P. 602-3:

> "That does not mean that the part of §1(b) which provides that the Act shall not apply 'to the production or gathering of natural gas' is given no meaning.

> Certainly that provision precludes the Commission from any control over the activity of producing or gathering natural gas. For example, it makes plain that the Commission has no control over the drilling and spacing of wells and the like. It may put other limitations on the Commission. * * *"

To the effect that the exception as to "production or gathering" in Section 1(b) does not include "sales in interstate commerce of natural gas for resale for ultimate public consumption," in the affirmative portion of that section, is *Interstate Natural Gas Co. v. Federal Power Comm.*, (C. A. 5) 156 F. 2d 949 (1946), 951, (affirmed, 331 U. S. 682).

In *Peoples Natural Gas Co. v. Federal Power Comm.*, 75 App. D. C. 235, 127 F. 2d 153 (1942), certiorari denied 316 U. S. 700. Peoples sold natural gas at its Pew compressor station in the state of Pennsylvania, which is the state where the gas was produced and gathered, to New York State Natural Gas Company, an affiliated company. The latter company in turn transported the gas into the state of New York where it was sold to others for resale in interstate commerce. The Court held (page 155 of 127 F. 2d) that the language in Section 1(b) of the Natural Gas Act making it apply to the sale in interstate commerce of natural gas for resale for ultimate public consumption "exactly covered" the sale from Peoples to New York State Natural Gas Company, and on rehearing (page 157, *et seq.* of 127 F. 2d) held the language covered sales in the state where the gas originates as well as sales in the state of destination.

The Court below in the instant case said that in the *Peoples* case it had held the portion of Section 1(b) that exempts production or gathering from FPC jurisdiction does not limit jurisdiction over sales for resale in interstate commerce. Thus, the decision of the Court of Appeals in the instant case states (R. 1862):

> "* * * And as the Fifth Circuit said, 'In *Peoples Natural Gas Co. v. Federal Power Comm.*, 75 U. S. App. D. C. 235, 127 F. 2d 153, the court found that a sale in Pennsylvania to an interstate pipeline company which immediately transported it to New York was a sale of natural gas in interstate commerce for resale, and, so finding, held that the provision that the act did not apply to production or gathering did not limit the commission's jurisdiction over such sales.' 156 F. 2d at 951-2.[1] * * *"

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[1]"The brief filed here for the Peoples Natural Gas Company raised the 'production and gathering' contention. We rejected it without mentioning it."

Thus, in its decision in the instant case, the Court of Appeals correctly rejected the contention that the Phillips' sales for resale within the affirmative provisions of Section 1(b) of the Act were within the exemption as to "production or gathering." The court said of this contention (R. 1864-5):

> "* * * If this were law neither the *Interstate Natural Gas* Case nor the *Colorado Interstate Gas* Case could have been decided as it was. For the sales of a producer and gatherer are necessarily and closely related to production and gathering. It does not follow that his bulk interstate sales are exempt from regulation under the Natural Gas Act. The cases we have cited, and §1(b) of the Act itself, show that such sales are

not exempt. Section 1(b) says the act shall apply 'to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale, . . . and to natural-gas companies engaged in such transportation or sale. . . .' It proceeds to exempt both 'local distribution' and 'production or gathering,' but it exempts nothing between 'production or gathering' and 'local distribution.' The exemption of production or gathering does not exempt sales made after production and gathering have been completed."

g. Resort to legislative history not necessary in view of Court's exhaustive treatment in prior decisions. In any event, the material relied on by petitions is improper and does not support their contentions.

Both Phillips and the FPC engage in a laborious review of alleged legislative history of the Natural Gas Act, relying *inter alia* on predecessor bills and comments thereon. We say this is neither necessary nor proper, as this Court has on many occasions reviewed the legislative history and in 1949 found it unnecessary to again go into the subject. In *Federal Power Comm. v. Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, this Court said, p. 502:

"Without entering upon another review of its legislative history,[3] suffice it to say that the Natural Gas Act did not envisage federal regulation of the entire natural-gas field to the limit of constitutional power. Rather it contemplated the exercise of federal power as specified in the Act, particularly in that interstate segment which the states were powerless to regulate because of the Commerce Clause of the Federal Constitution.[4] The jurisdiction of the Federal Power Com-

mission was to complement that of the state regulatory bodies. * * *

"The legislative history has been discussed by our prior opinions in **Panhandle Eastern Pipe Line Co. v. Public Service Comm'n of Indiana**, 332 U. S. 507, 514-521; **Interstate Natural Gas Co. v. Federal Power Comm'n**, 331 U. S. 682, 689-690; **Colorado Interstate Gas Co. v. Federal Power Comm'n**, 324 U. S. 581, 601-603; **Federal Power Comm'n v. Hope Natural Gas Co.**, 320 U. S. 591, 609-613; **Illinois Natural Gas Co. v. Central Illinois Pub. Serv. Co.**, 314 U. S. 498, 506-508.

"See H. R. Rep. No. 2651, 74th Cong., 2d Sess., pp. 1-3; H. R. Rep. No. 709, 75th Cong., 1st Sess., pp. 1-4; S. Rep. No. 1162, 75th Cong., 1st Sess., pp. 1-3."

The legislative history (as discussed in the cases of this court above cited) fully supports our position in this case. See pages 29-31, this brief. But if it is necessary to again consider legislative history (which we deny), we submit petitioners not only rely on improper materials but they misconstrue such legislative history.

As is manifest from the prior decisions of this Court where it deemed it advisable to review the history of the Natural Gas Act, any proper study of the legislative history of said Act should be confined to a determination of Congressional intent as shown in the identical House and Senate Committee Reports (H. R. Rep. 709, 75th Cong., 1st Sess.; S. Rep. No. 1162, 75th Cong., 1st Sess.) on H. R. 6586 which became the Natural Gas Act. The Senate Committee Report is printed in the Appendix to this brief, pp. 52-70.

Referring to the specific material relied on by petitioners, we submit the following:

1. *The Federal Trade Commission Report of 1935.*[11]

Even the FPC in its opinion gives this report no weight in construing legislative history. The opinion mentions this report but says the enumeration of "Specific Evils Existing in the Natural Gas Industry" and its "Summary Statement of Recommendations" are "generally but not specifically helpful here." R. V. 1714.

In any event, while petitioners' briefs refer at length to this report, *they do not refer* to the portions which do not support their position. Thus, in Chapter XIII entitled "Conclusions and Recommendations," it is stated (p. 614):

> "Wholesale rates for gas delivered in interstate commerce should be regulated *in all cases,* as the States are without power to fix them (*Public Utilities Commission v. Attleboro Steam & Electric Co.,* 273 U. S. 83 (1927)). * * *" (Emphasis ours.)

And in Recommendation number 3 it is stated (pp. 616-617):

> "A Federal regulatory law should be enacted applicable to interstate natural gas pipe lines which transport gas for ultimate sale to and use by the public, *regulating contracts for purchase of gas to be transported interstate,* or regulating rates for carriage or city gate rates at the end of such transportation, or all of these. * * *" (Emphasis ours.)

It goes without saying that there can be no "purchases" of gas by the five pipe line companies for transportation interstate, without "sales" by Phillips. The "purchases" and "sales" are the identical transactions.

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[11]Senate Doc. 92, Pt. 84A, 70th Cong., 1st Session.

Thus the report demonstrates on its face the incorrectness of the following assertion in the FPC brief (page 35):

> "* * * Federal regulation was recommended for the intervening gap, interstate transmission and wholesale sales to local distributors."

Contrary to petitioners' contentions, the Federal Trade Commission Report did not contemplate any gap between state and federal regulation. At p. 612, in the discussion of remedies, it states:

> "There is a jurisdiction, either State or National, which covers the entire country. Federal jurisdiction plus the jurisdiction of the several states should be so utilized and coordinated as to produce effective regulation and the termination of existing abuses and leave no unregulated twilight zone. Otherwise our system fails in a very crucial situation."

It is impossible, as a matter of logic, to reconcile this statement with the contention of petitioners that Congress intended to leave a "twilight zone" (or "gap") in the regulatory process between the end of state and the beginning of federal regulation.

2. *Petitioners' main reliance is on the legislative history of H. R. 11662, a prior bill and materially different from H. R. 6586 which became the Natural Gas Act. Such material may not properly be relied on.*

While reference is made in the FPC brief (page 37, *et seq.*) to a number of predecessor bills, the main reliance is on H. R. 11662, 74th Cong., 2nd Session. This is the only

predecessor bill relied on by Phillips (brief p. 30). We submit this material cannot properly be relied upon in determining the legislative history of the Natural Gas Act because the jurisdictional provisions of H. R. 11662 differed materially from H. R. 6586 which became the Natural Gas Act.

The basis for the attempted reliance on H. R. 11662 as part of the legislative history of the Natural Gas Act stems from a statement in *Federal Power Comm. v. Panhandle Eastern Pipe Line Co.*, 337 U. S. 498 (1949), 505, footnote 7, where *inter alia* the Court referred to H. R. 11662 as "an earlier bill substantially similar to the Natural Gas Act * * *." Inasmuch as the Court had earlier stated, p. 502 of 337 U. S., that it was not entering upon another review of the legislative history of the Natural Gas Act and p. 502 n. 2 that "*The* legislative history has been discussed in prior opinions," (emphasis ours) (see pp. 48, 49, *ante*, for quotation from case), we submit that in referring to H. R. 11662 it was not in an attempt to discuss anew the legislative history of the Natural Gas Act.

In any event, while the Court, speaking generally, noted H. R. 11662 and the bill that became the Natural Gas Act were substantially similar, a comparison of the specific jurisdictional provisions of H. R. 11662 and the bill which became the Natural Gas Act, clearly show material and significant differences. Specifically, the jurisdictional provisions of H. R. 11662 provided as follows:

> "Section 1(b) The provisions of this Act shall apply to the transportation of natural gas in high-pressure mains in interstate commerce and to natural-gas companies engaged in such transportation, but shall not apply to the distribution of natural gas moving locally

in low-pressure mains or to the facilities used for such distribution or to the production of natural gas; *Provided,* That nothing in this Act shall be construed to authorize the Commission to fix rates or charges for the sale of natural gas distributed locally in low-pressure mains or for the sale of natural gas for industrial use only."

Differing materially are the jurisdictional provisions of H. R. 6586, which became the Natural Gas Act, which provide:

"Section 1(b) The provisions of this Act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas."

It is thus plain that H. R. 11662 applied *only* to transportation of natural gas in high pressure mains in interstate commerce, while H. R. 6586, which became the Natural Gas Act, applied to (1) the transportation of natural gas in interstate commerce and (2) the sale in interstate commerce of natural gas for resale. *The latter provision was entirely absent from H. R. 6586.* The inclusion of the sale for resale provision was deliberate and based on constitutional grounds, as appears from the identical House and Senate Committee Reports. Thus in H. R. 709, 75th Cong., 1st Sess., after referring to the statutory language, it is said:

"* * * The States have, of course, for many years regulated sales of natural gas to consumers in intrastate transactions. The States have also been able to regulate sales to consumers even though such sales are in interstate commerce, such sales being considered local in character and in the absence of congressional prohibition subject to State regulation. (See *Pennsylvania Gas Co. v. Public Service Commission* (1920), 252 U. S. 23.) There is no intention in enacting the present legislation to disturb the States in their exercise of such jurisdiction. However, in the case of sales for resale, or so-called wholesale sales, in interstate commerce (for example, sales by producing companies to distributing companies) the legal situation is different. Such transactions have been considered to be not local in character and, even in the absence of Congressional action, not subject to State regulation. (See *Missouri v. Kansas Gas Co.*, (1924) 265 U. S. 298, and *Public Service Commission v. Attleboro Steam & Electric Co.*, (1927) 273 U. S. 83.) The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the States may not act."

Also in the brief of the FPC in the 5th Circuit in the case of *Interstate Natural Gas Co. v. Federal Power Comm.* (see pp. 24-25 of that brief printed as item V in our Appendix to this brief), it is said:

"H. R. 11662, 74th Cong., 2d Sess., was introduced in the House of Representatives on March 6, 1936, by Representative Lea of California. It differed fundamentally from H. R. 6586 and from the Natural Gas Act in its jurisdictional provisions."

The brief of the FPC in opposition to certiorari in *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682 (No. 733, October Term 1946, p. 13), also made

the same representation to this Court. (See p. 58 for quotation from brief.)

The DeVane statements concerning H. R. 11662 have been presented to this and to other courts and have been rejected. In *Interstate Natural Gas Co. v. Federal Power Comm.*, (CA 5) 156 F. 2d 949 (1946), affirmed 331 U. S. 682, the Court said, page 952:

> "A careful reading of petitioner's brief, especially of that portion of it devoted to the legislative history, shows that its difficulties flow from the fact that it does not distinguish between the Lea Bill, House Bill No. 11,662, proposed in 1936, but never passed, and the bill which became the law now under review. Legislative history 'cannot be resorted to for the purpose of construing a statute contrary to the natural import of its terms. * * * If the language be clear, it is conclusive.' *Peoples Natural Gas Co. v. Federal Power Comm.*, supra (127 F. 2d 159), quoted from *United States v. Shreveport Grain Co.*, 287 U. S. 77 at page 83, 53 S. Ct. 42, 77 L. ed. 175. Certainly the legislative history of a bill that was not adopted cannot be resorted to construe a bill that was.
>
> "It is quite plain that from the time the Lea Bill was introduced until the Natural Gas Act was passed, the ideas of the proponents of the legislation underwent considerable change. * * *"

On appeal the same DeVane material was submitted to this Court (see petitioner's brief *Interstate Natural Gas Co. v. Federal Power Commission*, Case No. 733, United States Supreme Court October Term 1946, pp. 35-39) and was neither relied on nor even mentioned by this Court in its unanimous opinion in that case. *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682.

Also, in *Peoples Natural Gas Co. v. Federal Power Comm.*, 127 F. 2d 153 (1942), certiorari denied 316 U. S. 700, the DeVane material was presented to the Court of Appeals for the District of Columbia Circuit on petition for rehearing. See brief of FPC in Court of Appeals for Fifth Circuit in *Interstate Natural Gas Co. v. Federal Power Comm.*, page 39, no. 21, portions of which brief are printed in item V of the Appendix to this brief.

3. *In any event, the DeVane statements do not refer to sales for resale such as those by Phillips to the five interstate pipe line companies involved here.*

The FPC brief, pp. 45-46, states the testimony of Mr. DeVane establishes that H. R. 11662 was not intended to regulate the "gathering rate," which it claims is the rate paid to the gathering company by the interstate transmitting company. Phillips says it provides strong and persuasive evidence that it was believed the predecessor bill H. R. 11662 did not regulate the prices charged in the field by "independent producers and gatherers," Phillips brief p. 34. *That testimony does not support the claims made for it that it exempts Phillips.* Quoting from FPC brief pp. 45-6:

"Mr. LEA [Chairman of Subcommittee].

Mr. DeVane, I would like to go back just a moment. Of course, it is a question of regulation. Suppose that the A company owns a gas supply and the B company transmits it to another State, distributes it to a local company for distribution. Now suppose the question arises as to whether or not the charges which the A company makes against the B company for the gas is

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reasonable. What, if any, authority would the Commission have on that question, under this bill. Do you get my question?

"Mr. DeVANE. Yes; if I understand your question, *concerning the price paid to the A company, there is no control of the gathering rate;* the Commission would not have jurisdiction. That price is fixed by competitive conditions that exist in the field. But it matters not how many different ownerships there may be between the time gas starts to move in interstate commerce and gets to the city gates. Ownership might change a dozen times—A company sell to B, and B company sell to C—all those rates would be subject to regulation.

"Mr. LEA. Well, when the supply company is brought before the Commission in an action to regulate its rates, and they say, 'We have got to pay so much for gas; we cannot control that price which they charge us, and we have to charge a higher delivered price to the buyer.' Does the Commission have any power over that?

"Mr. DeVANE. No; *not the price that is paid to the gatherer,* to the man that produces it; that is binding if the transaction is at arm's length. If the transaction is not at arm's length, of course, its reasonableness may be inquired into, under the decisions of the Supreme Court. [Italics supplied.]"

It is perfectly obvious from the context that in the example given the A Company owns a gas supply which it sells at the well head. The FPC told this Court in a prior brief (brief in opposition to certiorari in *Interstate Natural Gas Company v. Federal Power Comm.,* 331 U. S. 682 (1947), No. 733 October Term 1946, p. 13-14), as follows:

"With respect to the legislative history of the Act, petitioner quotes at length from the testimony of Mr. Dozier DeVane, former Solicitor of the Federal Power Commission, in connection with the predecessor bill H. R. 11662, containing different jurisdictional provisions from that enacted. We do not contend that the legislative history of a predecessor bill may not be resorted to in a proper case, if necessary, as an aid to ascertaining the intention of Congress. It is submitted, however, that where, as here, the language of the Act is clear and the Committee reports on the final bill enacted are explicit on the questions at issue, statements of witnesses on a bill not enacted and not even reported are entitled to no weight and that therefore the court below proper relied upon the legislative history of the final bill enacted. *The statements of Mr. DeVane, however, when studied in the light of the actual facts as to H. R. 11662, not only do not support petitioner's contentions, but actually leave no doubt that sales of gas in interstate commerce for resale, even when made, as here, in the producing field, were intended to come within the jurisdiction of the Commission.*" [Emphasis supplied.]

The fact that the FPC has been on both sides of the fence on the question destroys the value of the DeVane statement as legislative history.

In any event Phillips is not in the position of the A company, but rather is in the position of the B company referred to in Mr. DeVane's testimony, *since it is undisputed that it buys about 50% of the gas it sells for resale in interstate commerce from producers in the field.* See facts pp. 6-7, *ante.* Further, by the time Phillips sells and delivers natural gas to the five pipeline companies for resale the gas has been and is being transported in high pressure mains so as to be within even the limited scope of the jurisdictional provisions of H. R. 11662.

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4. *The debates on the bill (H. R. 6586) support jurisdiction over Phillips.*

Petitioners' main reliance on the debates on this bill is with reference to certain statements of Senator Wheeler, to the effect that the bill affects "only those who sell at wholesale in interstate commerce." Phillips' brief, pages 43-44. However, petitioners erroneously assert that the "wholesale sales" referred to by Senator Wheeler refer only to sales for resale in interstate commerce by pipeline companies to distributing companies. We respectfully submit that the very language of the quotations from the debates supports a conclusion contrary to that of petitioners. Senator Wheeler unequivocally states that *wholesale* sales would be subject to regulation by the FPC, including those in the producing states. (See quotation pp. 64-5, *post*, this brief.) Senator Wheeler did not except wholesale sales like those made by Phillips to the five pipe line companies under the circumstances of this case. The unambiguous language of the Act does not permit of any such exception by implication.

h. Administrative interpretation is entitled to no weight in this case.

The briefs in opposition (FPC brief, p. 65, and Phillips' brief, p. 45) rely on the claim the FPC has uniformly interpreted the Natural Gas Act to exclude transportation and sale such as involved here, which alleged interpretation is claimed to be entitled to significant weight.

The doctrine of administrative construction cannot be invoked to work a result contrary to the plain provisions

of the statute, a result sought here. But in any event, the FPC has never adopted a consistent view on the question here presented to entitle its interpretation to any weight whatsoever. The FPC acknowledges this in its brief in this case when it says, pages 71-2:

> "Notwithstanding this uniform course of interpretation revealed by decided Commission cases, *there has been some uncertainty as to the applicability of the 'gathering' exception to the situation here involved.* * * *" (Emphasis supplied.)

The first case relied on to establish "administrative construction" is *Columbian Fuel Corporation,* 2 F. P. C. 200 (1940). The interpretation of the Natural Gas Act by the FPC in that case was disapproved in *Peoples Natural Gas Co. v. Federal Power Comm.,* (App. D. C.) 127 F. 2d 153 (1942), certiorari denied, 316 U. S. 700. In that case the Court said, page 155:

> "* * * We cannot disregard the plain language of the statute because the Commission at one time interpreted it narrowly,[7] * * *

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[7]"In the Matter of **Columbian Fuel Corp.,** Opinion No. 48 (Docket No. G-143), 35 P. U. R., N. S. 3."

We next refer to *Interstate Natural Gas Co.,* 3 F. P. C. 416 (1943), where the FPC, in referring to the position of Interstate (which did not deny the sales involved to pipeline companies were sales of natural gas in interstate commerce for resale, but contended each was a sale in production or gathering and hence within the exemption in Section 1(b)) said after quoting the statutory language, pages 420-1:

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"The above-described sales to the three pipe line companies come within the scope of the specific affirmative provisions of section 1(b) of the Natural Gas Act and are clearly sales 'in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use.' It was such interstate wholesale sales which the United States Supreme Court had ruled were beyond the reach of the state commissions,[7] that Congress intended to regulate by the Natural Gas Act.

"The negative language in section 1(b) upon which the Interstate Company relies for its claimed exemption involving these sales provides that the Commission shall not have jurisdiction over 'the production or gathering of natural gas.' When the distinction between *production* and gathering of natural gas, and the *sale* of such gas in interstate commerce is kept in mind, effect is given to the Congressional objective.[8] The Commission is bound to obey the command of Congress to regulate these sales in interstate commerce for resale to the three pipe line companies. Such is clearly the implication of the decision of the Circuit Court of Appeals in *Peoples Natural Gas Co. v. Federal Power Commission*, 127 F. (2d) 153, cert. den. 316 U. S. 700.

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[7]H. Rept. No. 709, 75th Cong., 1st Sess., pp. 1-2; S. Rep. No. 1162, 75th Cong., 1st Sess., pp. 1-2; **Illinois Natural Gas Co v. Central Illinois Public Service Co.**, 314 U. S. 498, 503-506; **Federal Power Commission v. Natural Gas Pipeline Co.**, 315 U. S. 575, 582; **Kentucky Natural Gas Corp. v. Pub. Serv. Comm.**, 28 F. Supp. 509, 512, aff. 119 F. (2d) 417.

[8]For the distinction between production of a commodity and sales of such commodity in interstate commerce, see **Carter v. Carter Coal Co.**, 298 U. S. 238, 302-4."

The position of the FPC was sustained by the Court of Appeals for the Fifth Circuit (156 F. 2d 949) and this Court (331 U. S. 682). Its position as stated in the foregoing quotation is completely contrary to the position the FPC takes in this case.

Note also the comment in *Federal Power Comm. v. Panhandle Eastern Pipe Line Company*, 337 U. S. 498, 516-517, n. 25, which refers to the "uncertainty of opinion in the Commission as to the reach of the Act toward sales by independent producers and gatherers to natural-gas companies for transportation in interstate commerce."

Also in debate on the Kerr Bill (S. 1498, 81st Congress, 2d Session) Senator O'Mahoney stated that "the Federal Power Commission has wobbled all over the face of the earth with respect to this problem." 96 Cong. Rec., p. 4171.

i. There is no merit in petitioners' contention that the "gap" to be closed by enactment of the Natural Gas Act embraces only sales for resale in interstate commerce by a pipe line company to a distribution company, and impliedly excludes sales for resale to a pipe line company such as involved here.

There is no merit in petitioners' contentions based on the so-called three-part division of the industry (FPC brief, p. 29) that Congress intended only to regulate sales by the interstate pipe line companies and not sales for resale in interstate commerce made to a pipe line company by a company like Phillips at the production end of the line. This conclusion stems from the Federal Trade Commission Report of 1935 which we show, pages 50-51, is un-

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warranted. See quotations and discussion at pp. 50-51, *ante*, this brief.

This is a variation of the argument made at p. 39, Phillips' brief, and at pp. 56-57, FPC brief that the "gap" to be closed by enactment of the Natural Gas Act applies only to sales for resale by a pipe line company to a distribution company, and did not include sales for resale in interstate commerce by the so-called "independent producers and gatherers" at the production end of the pipe line.

In *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, after a review of the legislative history and ascertainment of the Congressional intent in adopting the Natural Gas Act, this Court specifically held (pp. 689-690) that the sales of natural gas "made in the field" by Interstate to three interstate pipe line companies for transportation across state lines and for resale for ultimate consumption were beyond the constitutional powers of the states to regulate, and (pp. 692-693) that the Natural Gas Act was enacted to regulate the rates for such sales. To the same effect see *Peoples Natural Gas Co. v. Federal Power Comm.*, (App. D. C.) 127 F. 2d 153 (1942), certiorari denied 316 U. S. 700. (Discussed at pp. 46-47, *ante*.)

There is also the following convincing authority that the constitutional "gap" to be closed also included wholesale sales made in producing states as well as in the receiving states. In addition to the indentical House and Senate Committee Reports on H. R. 6586, which became the Natural Gas Act (H. R. Rep. No. 709, 75th Cong., 1st Sess.; S. Rep. No. 1162, 75th Cong., 1st Sess.), which are

plain on their face," there is also the statement by Senator Wheeler on H. R. 6586 quoted at footnote 36 at page 63 of the Federal Power Commission brief:

> "Cf. the question by Senator Connally at p. 9314, 'if a man should produce gas in my State and ship it in interstate commerce, then he would have to sell it at the price fixed by the Commission?' to which Senator Wheeler replied, 'Exactly; at the wholesale price fixed by the Commission.' "

On June 7, 1938, there was printed in the Congressional Record a declaration of Senator Wheeler, Chairman of the Senate Committee on Interstate Commerce and in charge of the bill, as to the "Necessity for Federal Regulation of the Natural-Gas Industry," 83 Cong. Rec. 2422 *et seq.*, which contains the following language, at page 2422:

> "The courts have held that sales for resale, or so-called wholesale sales in interstate commerce, are not subject to State regulation (*Missouri v. Kansas Gas Co.*, 265 U. S. 298 (1924); *Public Service Commission v. Attleboro Steam and Electric Company*, 273 U. S. 83 (1927); *East Ohio Gas Co. v. Tax Commission of Ohio*, 283 U. S. 465).
>
> *"Neither the sending nor receiving State may regulate the wholesale rates.* The consumption of natural gas in the States is secured for the most part through interstate transmission, and the cost thereof is a very material element in determining the price the local consumers must pay for their gas." [Emphasis supplied.]

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[19]The Senate Report is printed in the Appendix to this brief, pp. 13 to 70.

And at page 2424:

> *"Federal jurisdiction plus the jurisdiction of the several States should be so utilized and coordinated as to produce effective regulation and the termination of existing abuses to the end that there should be no unregulated twilight zone. Otherwise our system fails in a very crucial situation.*
>
> "This bill is designed to provide the necessary complement to State regulations * * *." [Emphasis supplied.]

j. The statutory term "gathering" cannot be expanded by expert opinion so as to cover sales for resale in interstate commerce by Phillips.

The FPC brief, pages 9-15, lays heavy emphasis on what it chooses to denominate the "industry meaning of 'gathering.'" By self-serving statements of its executives, which have been shaped to fit the exigencies of the situation, Phillips has made a transparent attempt to extend the concept of gathering to a convenient point where it could slip out from under the plain import of the decision in the *Interstate* case (331 U. S. 682). Significantly, no reference is made to any dictionary or text book definition. We submit no such references in support of their claims can be found. See definitions quoted, pages 39-41, *ante*.

In this brief we have reviewed the admitted facts, the legislative history, the fluctuating administrative interpretations and the decisions of this Court on what the Congress meant by "sale in interstate commerce of natural gas for resale for ultimate public consumption" and by "production

or gathering of natural gas" as used in Section 1(b) of the Act.

From the admitted facts, it is clear beyond doubt that the sales for resale by Phillips were made in interstate commerce (*ante*, pp. 8-9). It is also clear from the undisputed facts that these sales for resale in interstate commerce take place after the completion of "production or gathering of natural gas" (*ante*, pp. 37-43).

The Committee Reports on the Act state clearly and directly that the words "production or gathering of natural gas" are not included in the jurisdictional grant of power over sales for resale in interstate commerce (*ante*, p. 45), and that the Act fills the jurisdictional "gap" over sales for resale in interstate commerce which the States may not constitutionally regulate.

This Court's decision in the *Interstate* case (quoted *ante*, pp. 29-30) directly adopts this "gap" occupying function as concisely defining what falls within "production or gathering of natural gas" and what falls within sales for resale in interstate commerce. Therefore, the definition of what "production or gathering of natural gas" means under the Act is thus clearly and precisely defined by the Congress. And one seeking that meaning must confine his search to this deliberate Congressional use of the terms.

But finding the Congressional definition not to their liking, petitioners seek to create one of their own. They follow the novel idea of claiming that Congressional purpose is not clear—an idea already refuted herein—and then claiming that Phillips may use the opinions of self-serving experts, four of whom were Phillips' own employes, to

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so define "gathering" in a manner that would bring Phillips beyond the reach of the entire Act. And that such opinions (see FPC brief, pp. 9-17), expressed 12 years after the Act was adopted, are binding upon this Court.

The absurd extremes to which the testimony of the Phillips' executives reached is demonstrated by statements made on cross-examination that the use of gas for water heating and stove heating constituted "gathering"; that "gathering" extended to the burner tip; that the flaring of gas constituted part of gathering; and that a pipe extending 40 feet into the air used to flare gas was a "gathering" line. R. II. 622. Mr. Bunn testified that "gathering" included not only sale and delivery of natural gas, but also the billing and collection of the sale price. R. II. 673. At one point he predicated his opinion upon change of ownership, testifying that this had everything to do with determining the point where "gathering" ends. R. II. 638. He said if the gas were delivered, for example, at the *inlet* side of the Sherman Plant, Phillips' gathering would end at the fence line (R. II. 638-9), and therefore would not include the Sherman gasoline plant. This, in the face of testimony by the same witness that under the actual facts of the case, where the gasoline plant is owned and operated by Phillips, "gathering" extends through the plant and to the point of delivery to Michigan-Wisconsin and even included the sale. R. II. 677-8.

The foregoing (but a few instances selected from extensive testimony) characterizes the whole tenor of petitioners' so-called "expert testimony" on the alleged industry meaning of gathering.

To state petitioners' proposition is to demonstrate its fallacy. To adopt it means that every person faced with regulation needs only assemble some alleged "experts" who are willing to express opinions that language clearly applicable is inapplicable. Thus Phillips or any other employer of the "experts" goes free of regulation. And, in addition to being contrary to clearly expressed Congressional intent, Phillips' definition is contrary to the accepted text book and dictionary definitions (*ante*, pp. 39-41).

This Court has rejected testimony as to what others think Congress intended when that testimony is offered in litigation years after adoption of legislation. Even opinions of members of Congress are rejected when offered one, or three, or twelve years after the bill became law.[11] In *United States v. United Mine Workers*, 330 U. S. 258, this Court rejected opinions of members of the Congress as to the meaning of the Louis-LaGuardia Act, saying (p. 281):

> "We fail to see how the remarks of these Senators in 1943 can serve to change the legislative intent of Congress expressed in 1932 * * *."

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[11]Most significant is the fact that industry witnesses testifying in support of the Moore-Rizley and Kerr Bills took a contrary position as to the scope of production and gathering and the jurisdictional reach of the Act's over sales for resale in interstate commerce. See Hearings on H. R. 4051 before a Subcommittee of the Senate Committee on Interstate and Foreign Commerce, 80th Cong., 2nd Sess. (1948), pp. 67-74, 357, 358, and Hearings on S. 1498 before a Subcommittee of the Senate Committee on Interstate and Foreign Commerce, 81st Cong., 1st Sess. (1949), pp. 35, 79, 80, 81, 84, 85, 105, 107, 109, 149, 153, 154, 158, 160, 388, 412, 422, 427-434, 442-444, 453, 454.

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II.

COMMISSION JURISDICTION NOT EXCLUDED BECAUSE OF ALLEGED CONFLICT WITH STATE REGULATORY EFFORTS.

The claim that FPC jurisdiction over the sales for resale in question is excluded because of alleged conflict with state regulatory efforts is rested on *dictum* in *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, 690:

> "* * * Thus, where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach. * * *"

The foregoing *dictum*[11] does not, as assumed by petitioners, apply to the sales for resale in interstate commerce by Phillips to the 5 interstate pipeline companies here involved. Obviously, in employing the above language, this Court referred to "sales" which the states could constitutionally regulate. This is perfectly apparent when one refers to the language immediately preceding that quoted above at p. 690 of 331 U. S. including that where the Court said among the powers reserved to the states is the power to regulate physical production and gathering and

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[11]In the Court of Appeals the FPC relied on this dictum. They do not do so in this court, a significant indication that they do not now believe the position sound.

that: "It was the intention of Congress to give the States full freedom in these matters." 331 U. S. 682, 690. The states cannot constitutionally regulate the sales for resale by Phillips (pp. 30-34, *ante*), hence the foregoing principle as a matter of law does not apply. Further support for our position appears in *United States v. Public Service Comm. of California,* 345 U. S. 295, 311:

> "* * * Especially in the litigation arising under the Gas Act has this Court expressed the view that the limitations established on Commission jurisdiction therein were designed to coordinate precisely with those constitutionally imposed on the states. * * *"

In any event, there has been no sufficient showing of any conflict. Following the language in the *Interstate* case above quoted, this court said (331 U. S. 682, 690-1):

> "* * * But such conflict must be clearly shown. Exceptions to the primary grant of jurisdiction in the section are to be strictly construed." It is not sufficient to defeat the Commission's jurisdiction over sales for resale in interstate commerce to assert that in the exercise of the power of rate regulation in such cases, local interests may in some degree be affected."

"'"Cf. **Colorado Interstate Gas Co. v. Federal Power Commission, supra,** (324 U. S. at 603, 89 L. ed. 1223, 65 S. Ct. 829); **Federal Power Commission v. Hope Natural Gas Co.,** 320 U. S. 591, 607-612, 88 L. ed. 333, 347, 350, 64 S. Ct. 281 (1944)."

In *Panhandle Eastern Pipe Line Co. v. Michigan Public Service Commission,* 341 U. S. 329, when the issue of dual regulation by the Michigan and FPC was before it, the Supreme Court said at p. 336:

"This court again reasserted the same doctrine in **United States v. Public Utilities Comm.,** 345 U. S. 295, 310.

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"** * There are no opposing directives and hence no necessity for us to resolve any conflicting claims as between state and federal regulation."

In any event, the record fails to show the existence of any conflict in fact. This is crystal clear from the detailed collection of the facts as stated pages 9-15, *ante.*[11]. *The brief filed by the intervening states of Texas, Oklahoma, and New Mexico fails to point to any specific conflict.*

The FPC brief states page 86:

"Commissioner Murray of Texas summarized this testimony in asserting that there is no jurisdiction the Commission might exercise over Phillips 'without conflict resulting' (R. II, 478-479). * * *"

This is an incorrect statement. The questions and answers appears pages 13-14, *ante.*

The FPC has regulated Panhandle Eastern Pipe Line Company producing gas in Texas and Oklahoma, Canadian River Gas Company, Natural Gas Pipe Line Company of America, and Cities Service Gas Company, all of which produce gas in Texas, and Southern Union Gas Company and El Paso Gas Company which produce gas in New Mexico, as well as other companies in the southwest. R. II, 698, 726-7. No "conflict" with the regulatory efforts of the states of Texas, New Mexico and Oklahoma was shown or claimed, and the state witnesses so testified. R. II. 478-489, 505-509, 539-546, 550-551, 584-587, 612. The testimony also shows that the FPC never issued any rules, regulations or

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[11]A full and accurate discussion of the facts also appears in the dissent of Commissioner Buchanan. R. V. 1788-1801.

orders which related to the production and gathering activities of natural gas companies reporting to the FPC. R. II. 697.

Oklahoma, which is the source of a relatively small portion of gas sold for resale in interstate commerce by Phillips to two of the five interstate pipeline companies involved in this record, is the only state which has adopted an order fixing a minimum price at which gas can be sold at the well head. As just stated, Texas and New Mexico have not adopted such orders, relying on "competition"[11] to fix field prices. Phillips' brief, p. 79; Texas et al. brief, p. 18.

In Phillips' brief it is said, p. 79:

> "* * * If, as in the case of Oklahoma, a state exercised its right to fix minimum prices in the producing field, the assertion of federal power over the same subject matter would create a situation in which two different regulatory agencies would be attempting to regulate the same transactions. * * *"

The statement erroneously assumes an attempt to regulate the "same subject matter," i.e. the same sale the Oklahoma order fixes a minimum price of gas at the well head. Here we are talking about entirely different sales for resale—to the 5 interstate pipeline companies in the States of Texas or New Mexico. See map item IV Appendix to this brief. The Oklahoma gas is gathered and transported across the state line into Texas where it is commingled with

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[11]Dependence on the "competition" theory to fix well head price is contrary to the conservation theory, since competition tends to drive prices down while the conservation theory is based on the proposition the higher the price the more conservation.

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other gas produced in Texas not later than at the Sherman and Hansford gasoline plants. There it is sold in interstate commerce for resale to Michigan-Wisconsin Pipe Line Company and Panhandle Eastern Pipe Line Company.

In any event, if there was a "conflict,"—which there is not here—a very recent decision holds that Federal Power Commission jurisdiction and ratemaking procedures made in exercise of that jurisdiction cannot be overridden by a state minimum price order. *State Corp. Comm. of Kansas v. Federal Power Comm.*, and *Northern Natural Gas Co. v. Federal Power Comm.*, (C. A. 8) 206 F. 2d 690 (1953) 706, certiorari denied 346 U. S. 922, rehearing pending.

The brief of Texas, et al., pp. 17-18, claims the Oklahoma minimum price order fixed the minimum price for Oklahoma gas Phillips sells Panhandle. Inasmuch as that sale for resale in interstate commerce takes place in Texas, it is difficult to see the basis for the claim Oklahoma can fix a minimum price with respect thereto.

The entire claim on conflict resolves itself down to the proposition that conservation of natural gas depends upon price and if the FPC were to fix a rate for the sales of gas by Phillips to the 5 interstate pipeline companies, the fixing of such price would affect state conservation efforts." R. V. 1745-1747. A similar view is taken by the petitioners. Phillips brief, pp. 73-85.

The claim is identical to that which has been presented to this court in two other cases and after careful consideration, expressly rejected. *Federal Power Comm. v. Hope Natural Gas Co.*, 320 U. S. 591 (1944), 607-9, 613-14; *Col-*

"The Federal Trade Commission Report of 1935 states, p. 612:
"Conservation concerns production rather than commerce."

orado Interstate Gas Co. v. Federal Power Comm., 324 U. S. 581, 600, 603. In *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, the same arguments as to alleged effect of FPC jurisdiction on state conservation efforts were presented in its argument by the State of Oklahoma (see 91 L. ed. 1742 at 1744) but were not accepted since the court sustained FPC jurisdiction. At most, unless and until the FPC fixes *a rate* which "conflicts" with state conservation efforts, we are simply talking about "possibilities" and no sufficient conflict is shown to prevent FPC jurisdiction as a matter of law.

Further, Commissioner Murray of Texas stated price would affect state conservation efforts only if they were unduly depressed (R. II, 452). Mr. Baumel of Texas based his answers on price and conservation on an assumption the price would be so low that costs could not be met (R. II, 570) and then stated he believed the FPC rate and other regulation to be fair (R. II, 572-3). Mr. Spurrier of New Mexico said a "profit was necessary; it should not be exorbitant" but could not say how much profit was necessary or what was "exorbitant" (R. II, 554, 557). Capshaw said there must be a "sufficient price" to justify drilling in marginal acreage wells but could not specify the price (R. II, 614) but that it was not the most important factor to be considered. There were others (R. II, 616-17).

The availability of markets through the construction of interstate pipe lines, and not price, was responsible in a large part for use of casing head or dry gas that might otherwise be flared (R. II, 492-531; 548-9; 559-60).

Even the assumption that FPC rate regulation will affect conservation is based on sheer speculation and hy-

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potheses. No witness could say what price level was necessary to afford conservation when consideration is given to the important part played by availability of market. The lower the price the more the demand and utilization of gas which avoids flaring. Yet as demand grows the price tends to rise. One is dependent upon the other, and on the present record one can only speculate as to what price will insure maximum conservation and whether any rate fixed by the FPC would not enable such price to be reached.

CONCLUSION

The decision of the Court below is correct and for reasons stated in this brief we submit the judgment under review should be affirmed.

Respectfully submitted,

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March 29, 1954.

MAR 29 1954
HAROLD B. WILLEY, Clerk

Nos. 280, 281, 418

IN THE

Supreme Court of the United States

OCTOBER TERM 1953

PHILLIPS PETROLEUM COMPANY, *Petitioner*,

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, a municipal corporation; COUNTY OF WAYNE, MICHIGAN; and THE FEDERAL POWER COMMISSION, *Respondents*.

STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; and STATE OF NEW MEXICO AND OIL CONSERVATION COMMISSION OF NEW MEXICO, *Petitioners*,

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; and THE FEDERAL POWER COMMISSION, *Respondents*.

FEDERAL POWER COMMISSION, *Petitioner*,

v.

STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, ET AL., *Respondents*.

APPENDIX TO JOINT BRIEF OF STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, ET AL.

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APPENDIX I

Portions of Natural Gas Act (Act of June 21, 1938, ch. 556, 52 Stat. 821, as amended by Act of February 7, 1942, ch. 49, 56 Stat. 83, and Act of July 25, 1947, ch. 333, 61 Stat. 459, 15 U. S. C. §§717-717w) which are material to questions presented.

Section 1.

(a) As disclosed in reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.

(b) The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

Section 2. When used in this act, unless the context otherwise requires—

* * *

(6) "Natural-gas company" means a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale.

APPENDIX II

COMPARISON OF SECTION 1(b) in H. R. 11662 and H. R. 6586

H. R. 11662 Died with Session June 20, 1936 (Lea Bill 74th Cong., 2d sess., introduced March 6, 1936)

Section 1(b) The provisions of this Act shall apply to the transportation of natural gas in high-pressure mains in interstate commerce and to natural-gas companies engaged in such transportation, but shall not apply to the distribution of natural gas moving locally in low-pressure mains or to the facilities used for such distribution or to the production of natural gas; *Provided,* That nothing in this Act shall be construed to authorize the Commission to fix rates or charges for the sale of natural gas distributed locally in low-pressure mains or for the sale of natural gas for industrial use only.

H. R. 6586 Enacted June 21, 1938 (Lea Bill 75th Cong., 1st sess., introduced April 22, 1937)

Section 1(b) The provisions of this Act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

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APPENDIX V

Pages 9 to 46, page 76, and Appendix B of Brief for Federal Power Commission in Interstate Natural Gas Company, Incorporated v. Federal Power Commission, dated May 9, 1946 in No. 10701 in the United States Court of Appeals for the Fifth Circuit.

(*Note*: Due to the different size of type used in the footnotes of the brief of the Federal Power Commission, which size was unobtainable at the State of Wisconsin printing establishment, it was necessary to substitute bold face for italicized type.)

No. 10701

In the United States Circuit Court of Appeals for the Fifth Circuit

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INTERSTATE NATURAL GAS COMPANY, INCORPORATED,
PETITIONER

v.

FEDERAL POWER COMMISSION, LOUISIANA PUBLIC SERVICE COMMISSION, CITY OF NEW ORLEANS, LOUISIANA, CITY OF BATON ROUGE, LOUISIANA, RESPONDENTS

ON PETITION FOR REVIEW OF ORDERS OF THE FEDERAL POWER COMMISSION

BRIEF FOR FEDERAL POWER COMMISSION

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ARGUMENT

I

The sales made by Interstate to Mississippi, Southern Natural and United, for account of Memphis, being sales of natural gas in interstate commerce for resale for ultimate public consumption, are subject to the jurisdiction of the Commission and not exempt

The present proceeding is one under Section 5 (a) of the Natural Gas Act to determine and fix just and reasonable rates of Interstate, as a natural-gas company within the meaning of the Act, for sales of natural gas subject to the jurisdiction of the Commission.

As petitioner is an interstate pipeline company and admittedly a natural-gas company within the meaning of the Natural Gas Act,[*] the question here is whether the sales to the three companies in question are sales of natural gas subject to the jurisdiction of the Commission.

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[*] R. 24, 25. Cf. Petitioner's brief, pp. 4, 6, 7.

Although petitioner, on pages 11 and 12 of its brief, takes exception to certain of the Commission's findings establishing that the sales to Mississippi, Southern Natural, and United, for account of Memphis, here in question, are sales in interstate commerce for resale for ultimate public consumption, petitioner has admitted that the sales in question are sales in interstate commerce for resale and is bound by that admission.

In its reply brief before the Commission, Interstate, there respondent, said (page 18):

"Respondent admits that these sales are in interstate commerce."

The Commission in its opinion (R. 60) found that Interstate "successfully contended in a Federal Court that over 99% of its total sales of gas, which include sales made to the three pipe line companies, were sales in interstate commerce and beyond the reach of the Louisiana Commission. *Interstate Natural Gas Co.* v. *Public Service Commission*, 33 F. Supp. 50; 34 F. Supp. 980." The Commission further found as follows:

> Interstate does not now deny that the sales of natural gas to the three pipe line Companies constitute sales of natural gas in interstate commerce for resale, but it contends that each of these sales constitutes a sale in the "production and gathering" of gas and falls within the claimed exemption stated in Section 1 (b) of the Natural Gas Act.

Petitioner quotes this statement of its admission without

contradiction on page 24 of its brief in this Court and makes no contrary showing elsewhere. See also R. 849, 852, 859, 861.

The quotation from the opinion may, therefore, be taken as a fair and accurate statement of petitioner's position.

The petitioner contends that, although the sales in question are sales of natural gas in interstate commerce for resale which would otherwise be subject to the jurisdiction of the Commission, they are exempt as coming within the language of Sec. 1 (b) as "the production or gathering of natural gas."

Sec. 1 (b) of the Natural Gas Act provides:

> The provisions of this act *shall apply* to the transportation of natural gas in interstate commerce, to the *sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use,* and to natural-gas companies engaged in such transportation or sale, *but shall not apply to any other* transportation or *sale of natural gas* or to the local distribution of natural gas or to the facilities used for such distribution *or to the production or gathering of natural gas.* [Italics supplied.]"

The contention of the Commission is that its jurisdiction over sales of natural gas here depends on whether

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" It should be noted that it is not necessary in order that the Commission may have jurisdiction over a sale of natural gas in interstate commerce for resale that there be transportation in connection with such sale as implied by petitioner in its brief, since the grant of jurisdiction in subsection 1 (b) over transportation and sale is in the disjunctive.

the sales are sales of natural gas interstate commerce for resale for ultimate public consumption for domestic, commercial, industrial or other uses as provided in Sec. 1 (b). The sales in question in the present case admittedly coming within that category and being separate and distinct from "the production or gathering of natural gas," are not within the exemption of "the production or gathering of natural gas," as stated in Sec. 1 (b) of the Natural Gas Act. Congress intended by the exemption to exclude the Commission from the field of direct regulation of the activity of "production and gathering of natural gas" presently occupied by the States, but it did not intend, by that exemption, to nullify the jurisdiction given the Commission in the Act to regulate interstate wholesale rates.

It is to be noted that subsection 1 (b) quoted above relates to two diverse sets of activities. (According to one set the provisions of the Act "shall apply to" and the other set they "shall not apply to." "The sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use" is an activity to which the provisions of the Act "shall apply." "The production or gathering of natural gas" is an activity to which the provisions of the Act "shall not apply." To give effect to the whole subsection, as the principles of construction require, *prima facie*, the two sets of activities should be mutually exclusive and non-overlapping, with the second set not intended to nullify the

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first, so that all may be given effect. Crawford, Statutory Construction (1940), p. 262.

The "production or gathering" clause, moreover, is in the nature of an exception and must be strictly construed. Horack, Sutherland Statutory Construction, 3rd ed., Vol. 2, sec. 4933, p. 471 and sec. 4936, p. 474. *Hartford Electric Light Company* v. *Federal Power Commission*, 131 F. 2d 953, 962; cert. den. 319 U. S. 741.

In the *Hartford* case, the Circuit Court of Appeals for the Second Circuit, said, on page 962, of sec. 201 (b) of the Federal Power Act, a clause similar to sec. 1 (b) of the Natural Gas Act:

> Regarding the "but" clause as an exception, and keeping in mind the obvious purpose of Congress, disclosed in the legislative history, to see to it that there was effective regulation of interstate wholesale sales of electric energy, we consider as pertinent the "elementary rule requiring that exceptions from a general policy which a law embodies should be strictly construed * * *." *Spokane & Inland R. R.* v. *United States*, 241 U. S. 344, 348, 350, 36 S. Ct. 668, 671, 60 L. Ed. 1037; cf. *Piedmont & Northern Ry.* v. *I. C. C.*, 286 U. S. 299, 311, 312, 52 S. Ct. 541, 76 L. Ed. 1115; *United States* v. *McElvain*, 272 U. S. 633, 639, 47 S. Ct. 219, 71 L. Ed. 451.
>
> We note that the Natural Gas Act, U. S. C. A., Title 15, § 717 (b) provides that that Act shall apply to the "transportation" of natural gas "in interstate commerce" or to the "sale in interstate

commerce of natural gas for resale"; the same sentence contains a "but" clause reading: "but *shall not apply* * * * to the local distribution of natural gas or to *the* * * * *production or gathering of natural gas.*" Yet, in *People's Natural Gas Co.* v. *Federal Power Commission, supra,*[11] a company engaged in the production of natural gas, but not in its interstate transportation, was held to be subject to the Act because, in the State of Pennsylvania, it sold gas to another company which transported the gas to another state for resale.

Cf. *Jersey Central Power & Light Co.* v. *Federal Power Commission,* 319 U. S. 61 and *Illinois Natural Gas Co.* v. *Central Illinois Public Service Co.,* 314 U. S. 498.

The phrase "production or gathering of natural gas" relates to two activities, "production" and "gathering."

"Production" is a separate and distinct activity and considered by itself alone is not interstate commerce in either the sense of transportation or sale. *Ohio Oil Company* v. *Indiana (No. 1),* 177 U. S. 190, 205-212; *Haskell* v. *Kansas Natural Gas Co.,* 224 U. S. 217, 220; *Champlin Rfg. Co.* v. *Commission,* 286 U. S. 210, 235. See also *West* v. *Kansas Natural Gas Co.,* 221 U. S. 229, 252, 253, 255. Cf. *Carter* v. *Carter Coal Company,* 298 U. S. 238, 302-304.

"Gathering" relates to the collecting of the gas from the various wells and bringing it into one place. Webster's

[11] **Peoples Natural Gas Co. v. Federal Power Commission,** 127 F. 2d 153, discussed at length below on pages 34 to 41.

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new International Dictionary, 2nd Edition (1939) so defines the word[12] and the trade or technical meaning of the term is the same as its usual or popular meaning.

"Gathering" is, in its nature, clearly transportation and not sale. Transportation and sale are separate and distinct activities. Transportation "comprehends any real carrying about or from one place to another."[13] Sale is a legal transaction involving the transfer of title to a purchaser.

The Supreme Court pointed out in its opinion in *Canadian River Gas Company* v. *Federal Power Commission*, 324 U. S. 581, 598:

> Transportation and sale do not include production or gathering.

The meaning of "production" and "gathering," therefore, cannot include sales in interstate commerce, since "production" cannot be "interstate commerce" and "gathering," being transportation, cannot include a sale.

(a) Legislative History

The conclusion of this analysis of the words "production" and "gathering" as used in Sec. 1 (b) of the Natural Gas

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[12] Cf. **Henderson Development Co.** v. **United Fuel Gas Co.**, 3 S. E. 2d 217 (W. Va.), where the definition is quoted in the same connection. Cf. definition in Louisiana Acts 1944, No. 132, § 1.

In the Monroe Field, line F-1 (See Appendices A and B) is, as was admitted by William A. Dougherty, attorney for Petitioner, "a header or reservoir". R. 467. The moment the gas enters the "header" it has certainly been "gathered."

[13] **Cunard S. S. Co.** v. **Mellon**, 262 U. S. 100, 121, 122. Cf. **State** v. **Redmond**, 237 P. 486 (S. Ct. of Mont.).

Act as not including sales of natural gas in interstate commerce for resale, such as those involved in the present case, is confirmed by the legislative history of the provision.

The Natural Gas Act, as enacted in 1938, follows closely Parts II and III of the Federal Power Act, enacted in 1935. The purpose of both acts was the same, namely, to supplement State regulation by providing for regulation by a Federal commission of the transportation and sale for resale *in interstate commerce* of electric energy and natural gas, which had been held by the Supreme Court of the United States not subject to regulation by the States.

The motivating cause of the enactment by Congress in 1935 of the Federal Power Act was the decision of the Supreme Court of the United States in the case of *Public Utilities Commission* v. *Attleboro Co.*, 273 U. S. 77 (1927), which held that rates for the interstate sale by a Rhode Island utility to a Massuchetts distributing company of electric energy transmitted in interstate commerce from Rhode Island to Massachusetts, the delivery taking place at the State line, could not be regulated by the State of Rhode Island. The case established that such interstate wholesale rates are not subject to regulation by the States but can only be regulated by Congress under the interstate commerce clause, thereby making necessary, to insure regulation, the passage of the Federal Power Act of 1935.

It was similarly held, with respect to natural gas, in *Missouri* v. *Kansas Natural Gas Co.*, 265 U. S. 298 (1923),

that the rates for the sale of natural gas at wholesale in interstate commerce in one state to distributing companies in another state cannot be regulated by either state.

This case, in conjunction with the *Attleboro* case, made the passage in 1938 of the Natural Gas Act necessary, since it was established by these decisions that the States could not regulate such wholesale sales of natural gas in interstate commerce and legislation by Congress was necessary to accomplish federal regulation."

The primary purpose of the enactment of the Natural Gas Act, as shown by its legislative history, was to regulate interstate transportation and/or sale of natural gas in interstate commerce for resale, which, under the afore-mentioned Supreme Court decisions, were not subject to state regulation, and not to regulate directly matters in the intrastate sphere, such as the conservation of natural gas, dependent upon the local regulation of production and gathering.

The Supreme Court of the United States in the case of *Panama Refining Co.* v. *Ryan,* 293 U. S. 388, had held (January 7, 1935) unconstitutional certain attempted Federal regulation in the field of conservation of production

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" Title III of H. R. 5423, 74th Congress, 1st Session (February 6, 1935), entitled Transmission and Sale of Natural Gas, incorporated provisions generally similar to those contained in the Natural Gas Act of 1938. This proposed legislation was finally enacted August 26, 1935, in the form of the Public Utility Act of 1935, Title II of which was the Federal Power Act of 1935. Title III relative to natural gas failed of passage in 1935.

of oil under the National Industrial Recovery Act. This decision led to the enactment of the Connally "Hot-Oil" Act in 1935 (49 Stat. 30; 15 U. S. C. Sec. 715-715 (1), and its amendment in 1937 (50 Stat. 257), which was aimed at making effective state pro-ration and other laws relating to the conservation or production of oil. The 1937 amendment was under consideration by Congress at the same time as the Natural Gas Act and it is apparent that the status of the conservation problem at the time influenced the insertion of the "production and gathering" provision in Section 1 (b) of the Natural Gas Act as finally enacted in 1938.

The bills under consideration in Congress in 1935 did not contain any provision similar to the "production and gathering" provision of Section 1 (b) of the Natural Gas Act.

The phrase "production or gathering" in Section 1 (b) appeared for the first time in H. R. 12680, introduced in the House of Representatives May 12, 1936, by Congressman Lea of California.

The preceding bill, H. R. 11662, 74th Congress, 2d Sess., which was different from the law as enacted in its jurisdictional provisions and resembled the 1935 bills, did not contain the provision [18] in the present form but did

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[18] H. R. 11662 does, moreover, for the first time (in Section 11) contain the provisions of Sec. 11 (a) of the Natural Gas Act relative to state compacts regarding the conservation of natural gas resources, thus additionally recognizing potential state control in that sphere. See pages 24-27 below for a discussion of H. R. 11662 in an analysis of the testimony of Dozier A. DeVane in connection with that bill relied upon by petitioner.

contain an exemption of "the production of natural gas."

The report regarding H. R. 12680 made by the Committee on Interstate and Foreign Commerce of the House of Representatives (Report Number 2651, House of Representatives, 74th Congress, 2d Session) contains the following language on page 1 showing the primary intention of Congress:

> The main purpose of this bill is to provide for the regulation of the transportation and sale of natural gas in those cases in which the State regulatory bodies do not have jurisdiction.

This is supplemented by the following on page 2 of the Report:

> Under the decisions of the United States Supreme Court rates charged in interstate wholesale transactions may not be regulated by the States. Such transactions are defined in this bill to mean sales of natural gas for resale. The Commission is given no jurisdiction over local rates even where the natural gas moves in interstate commerce.
>
> * * * * *
>
> The bill takes no authority from State commissions and is so drawn as to be a complement, and in no sense an usurpation, of State regulatory authority and contains directions to the Federal Power Commission to receive and consider the views of State commissions.

The report further says on page 3:

> Subsection (b) confers jurisdiction upon the Commission over the transportation of natural gas

> in interstate commerce and the sale of such gas for resale to the public but does not apply to any other sale of natural gas, or deprive a State of any lawful authority now exercised over the distribution and sale of natural gas locally, and exempts from the jurisdiction of the Commission the sale of natural gas for industrial use only.

No statement is made, however, to the effect that any other sales of natural gas in interstate commerce for resale are exempt, as, for instance, being "production or gathering."

Several other bills[11] were introduced in 1937, prior to H. R. 6586, but they are without significance as to the question of interpretation here in issue, except that H. R. 4008 was the original form of H. R. 6586.

H. R. 6586, the bill which became the Natural Gas Act, was introduced by Representative Lea in the House on April 22, 1937, and on April 28, 1937 it was committed to the Committee of the Whole House on the State of the Union and ordered to be printed. This bill contains a subsection 1 (b), identical with subsection 1 (b) in the Natural Gas Act and the bill otherwise was the same as the Act finally enacted.

On April 28, 1937, the Committee on Interstate and Foreign Commerce of the House reported on H. R. 6586 (Re-

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[11] H. R. 4008, 75th Cong., 1st Sess., introduced in the House by Representative Lea, January 29, 1937; H. R. 5711, 75th Cong., 1st Sess., introduced in the House by Representative Crosser, March 17, 1937; S. 1919, 75th Cong., 1st Sess., introduced by Senator Brown in the Senate, March 17, 1937.

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port No. 709, 75th Cong., 1st Sess.). This report, which was incorporated verbatim in the report of the Senate Committee on Interstate Commerce, Report No. 1162, 75th Cong., 1st Sess., accompanying H. R. 6586, printed in full as Appendix B to this brief, shows conclusively that the narrower interpretation is to be placed upon the "production or gathering" provision of subsection 1 (b) and that it is not intended to detract in any way from the jurisdiction given the Commission over sales "in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and * * * natural-gas companies engaged in * * * such sale." The House report says on page 3:

> In view of the importance of section 1 (b), which states the scope of the act, it seems advisable to comment on certain provisions appearing therein. It wil be noted that this subsection of the bill, after affirmatively stating the matters to which the act is to apply, contains a provision specifying what the act is not to apply to, as follows:
>
> "but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas."
>
> The quoted words are not actually necessary, as the matters specified therein could not be said fairly to be covered by the language affirmatively stating the jurisdiction of the Commission, but similar language was in previous bills, and, rather than invite

> the contention, however unfounded, that the elimination of the negative language would broaden the scope of the act, the committee has included it in this bill. That part of the negative declaration stating that the act shall not apply to "the local distribution of natural gas" is surplusage by reason of the fact that distribution is made only to consumers in connection with sales, and since no jurisdiction is given to the Commission to regulate sales to consumers the Commission would have no authority over distribution, whether or not local in character."

The inescapable conclusion from the quoted statement in House Committee report on H. R. 6586 is that the Commission's jurisdiction over wholesale sales of natural gas in interstate commerce was intended to remain the same after the insertion of the "production or gathering" provision in subsection 1 (b) of the Act as it would have been had the "production or gathering" provision never been inserted.

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[11] Senator Wheeler, who was in charge of the bill in the Senate, summed up the matter well in the debate in the Senate on H. R. 6586 when he said (81 Congressional Record, Part VIII, August 19, 1937, p. 9312):

"Mr. WHEELER. It does not attempt under the provisions of the bill to regulate the producers of natural gas or the distributors of natural gas; only those who sell at wholesale in interstate commerce."

Senator Wheeler further said in the same debate (81 Congressional Record 9313): "There is no attempt and can be no attempt under the provisions of the law to regulate anything in the field except where it is not regulated at the present time. It applies only as to interstate commerce and only to the wholesale price of gas."

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The House report was incorporated verbatim in the Senate report (Appendix B to this brief), and the quoted statement was accordingly repeated and confirmed by the Senate Committee on Interstate Commerce, in reporting on H. R. 6586. No more authoritative statement from legislative history can be advanced than an unequivocal one appearing in the reports of both the House and Senate committees, reporting on the bill as enacted into law.

The House report, on pages 1, 2 and 3, contains the following statements clearly showing the paramount intention was to regulate all wholesale sales of natural gas in interstate commerce not capable of regulation by the States:

> The States have, of course, for many years regulated sales of natural gas to consumers in intrastate transactions. The States have also been able to regulate sales to consumers even though such sales are in interstate commerce, such sales being considered local in character and in the absence of congressional prohibition subject to State regulation. (See *Pennsylvania Gas Co.* v. *Public Service Commission* (1920), 252 U. S. 23.) There is no intention in enacting the present legislation to disturb the States in their exercise of such jurisdiction. However, in the case of sales for resale, or so-called wholesale sales, in interstate commerce (for example, sales by producing companies to distributing companies) the legal situation is different. Such transactions have been considered to be not local in

> character and, even in the absence of Congressional action, not subject to State regulation. (See *Missouri* v. *Kansas Gas Co.* (1924), 265 U. S. 298, and *Public Service Commission* v. *Attleboro Steam & Electric Co.* (1927) 273 U. S. 83.) The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the States may not act.
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> * * * * *
>
> The bill takes no authority from State commissions, and is so drawn as to complement and in no manner usurp State regulatory authority, and contains provisions for cooperative action with State regulatory bodies.
>
> * * * * *
>
> Your committee believes that this legislation is highly desirable to fill the gap in regulation that now exists by reason of the lack of authority of the State commissions.

Petitioner's brief (pages 34, 39-45) advances as the mainstay of its argument from legislative history certain statements made by Dozier A. DeVane, then Solicitor of the Federal Power Commission, in 1936 in testifying before the House Committee on Interstate and Foreign Commerce relative to H. R. 11662. These statements by Mr. DeVane, when rightly regarded in the light of the actual facts as to H. R. 11662, do not support petitioner's contentions.

H. R. 11662, 74th Cong., 2d Sess., was introduced in the House of Representatives on March 6, 1936, by Representative Lea of California. It differed fundamentally from

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H. R. 6586 and from the Natural Gas Act in its jurisdictional provisions.

The Commission's jurisdiction in H. R. 11662 was expressly limited to the transportation of natural gas in high-pressure mains in interstate commerce and natural-gas companies engaged in such transportation. The distribution of natural gas moving locally in low-pressure mains and the facilities used for such distribution and also the "production of natural gas" were exempt by express provision. It is to be noted that it was the "production of natural gas" which was exempt by this bill and not "production or gathering" as in the Natural Gas Act. As the Commission's jurisdiction was limited to the transportation of natural gas in high-pressure mains in interstate commerce, there was no need for exemption of gathering lines.

Sec. 1 (b) of H. R. 11662 provided as follows:

> (b) The provisions of this Act shall apply to the transportation of natural gas in high-pressure mains in interstate commerce and to natural-gas companies engaged in such transportation, but shall not apply to the distribution of natural gas moving locally in low-pressure mains or to the facilities used for such distribution or to the production of natural gas: *Provided*, That nothing in this Act shall be construed to authorize the Commission to fix rates or charges for the sale of natural gas distributed locally in low-pressure mains or for the sale of natural gas for industrial use only.

The rate sections of H. R. 11662, namely, sections 4 (b) and 5 (a), moreover, expressly limit the Commission's jurisdiction to rates or charges relating to any service rendered or to be rendered in connection with "the transportation of natural gas in high pressure mains in interstate commerce," whereas the Natural Gas Act gives the Commission jurisdiction as to all wholesale sales of natural gas in interstate commerce.

Mr. DeVane expressly referred to these provisions of H. R. 11662 in his testimony on page 24 of the hearings before the Subcommittee of the Committee on Interstate and Foreign Commerce of the House of Representatives on H. R. 11662, in saying: "The whole purpose of this bill is to bring under Federal regulation the pipe lines and to leave to the State commissions control over distributing companies and over their rates, whether that gas moves in interstate commerce or not."

When, on page 42 of the hearings, before Mr. DeVane made the statements referred to on pages 34 and 45 of petitioner's brief, it is to be noted Mr. DeVane first said that, where there was a series of sales beginning with the sale by an independent producer designated as A, the Commission would have jurisdiction over all the sales in interstate commerce subsequent to the sale by A. Mr. DeVane's exact statement is as follows:

> Mr. DEVANE. Yes; if I understand your question, concerning the price paid to the A company, there

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> is no control of the gathering rate; the Commission would not have jurisdiction. That price is fixed by competitive conditions that exist in the field. But it matters not how many different ownerships there may be between the time the gas starts to move in interstate commerce and gets to the city gates. Ownership might change a dozen times—A company sell to B, and B company sell to C—all those rates would be subject to regulation.

Moreover, it is to be noted that in the statements which are quoted on pages 44-45 of petitioner's brief, Mr. DeVane is using the term "gathering rate" as designating the price paid to the producer.

Statements made in hearings regarding the meaning of the dissimilar jurisdictional provisions contained in H. R. 11662, a bill not even reported by a Congressional committee, clearly can have no persuasive force as to the jurisdictional provisions of the Natural Gas Act, in which the Commission is given jurisdiction over transportation and sales of natural gas in interstate commerce for resale instead of over transportation of natural gas in high pressure mains in interstate commerce.

In any event, such general statements made by a former Solicitor or a former General Counsel[18] of the Commission are not persuasive here.

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[18] The statements of Charles V. Shannon, former General Counsel of the Commission, quoted on pages 33 and 34 of petitioner's brief, moreover, can have no more persuasive effect than the testimony of Dozier A. DeVane regarding H. R. 11662, upon which they are based. Mr. Shannon, it should be noted, was speaking of

The Commission is bound to the observance of the provisions of its jurisdictional statutes and is bound to follow their correct interpretation. It is well established law that the United States cannot be estopped into a wrong construction of a jurisdictional statute, even by official act of its officers. *Utah Power & Light Co.* v. *United States,* 243 U. S. 389, 409; *Niagara Falls Power Company* v. *Federal Power Commission,* 132 F. 2d 787, certiorari denied 320 U. S. 792, rehearing denied 320 U. S. 815; *Wilbur National Bank* v. *United States,* 294 U. S. 120, 123-124; *Pennsylvania Water & Power Company* v. *Federal Power Commission,* 123 F. 2d 155, 162-163, certiorari denied 315 U. S. 806; *Wilbur* v. *United States,* 281 U. S. 206, 217; see also *United States* v. *San Francisco,* 310 U. S. 16, 31-32.

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sales to pipe lines by "independent producers" and was commenting on the Supreme Court opinions in the cases of **Canadian River Gas Co.** v. **Federal Power Commission,** 324 U. S. 581 and **Panhandle Eastern Pipe Line Co.** v. **Federal Power Commission,** 324 U. S. 635. In the **Canadian River** case, no sales by "independent producers" were involved as Canadian River Gas Co. produced all its own natural gas, 3 F. P. C. 37. In the **Panhandle** case, where the "production or gathering" point was not raised, the gas purchased by Panhandle was purchased from producers at or near the well head, and the purchase price paid was allowed as an operating expense. The Supreme Court, however, abstained from any holding or dictum (see footnote 6 to the Supreme Court's opinion) as to whether the Commission had jurisdiction of such sales. Even if the Commission has jurisdiction, the price paid would be allowed as an expense item. Mr. Shannon's statement should be read in the light of the surrounding circumstances and in its context.

(b) Court Decisions

To begin with, the fundamental proposition is that no state can regulate the interstate wholesale sales of natural gas to Mississippi, Southern Natural, and United, for account of Memphis, here in issue.

There has been an actual holding that the State of Louisiana cannot regulate the three sales in question, *Interstate Natural Gas Company, Inc.* v. *Louisiana Public Service Commission,* 34 F. Supp. 980, (Cf. *Interstate Natural Gas Co., Inc.* v. *Louisiana Public Service Commission,* 33 F. Supp. 50). The holding that the sales in issue are sales in interstate commerce not subject to state regulation was sought by and obtained by petitioner itself. Cf. *State Tax Commission* v. *Interstate Natural Gas Co.,* 284 U. S. 41. This ruling of the federal courts involving the present sales is supported by other decisions of the Supreme Court of the United States to the effect that the state cannot regulate such interstate wholesale sales. *Missouri* v. *Kansas Gas Co.,* 265 U. S. 298, *United Fuel Gas Co.* v. *Hallanan,* 257 U. S. 277, 280, *Pennsylvania* v. *West Virginia,* 262 U. S. 553, *Illinois Gas Co.* v. *Public Service Co.,* 314 U. S. 498, and *Public Utilities Commission of Ohio* v. *United Fuel Gas Co.,* 317 U. S. 456. Cf. *Public Utilities Commission* v. *Attleboro Steam and Electric Co.,* 273 U. S. 83. See also *Kentucky Natural Gas Corporation* v. *Public Service Commission of Kentucky,* 28 F. Supp. 509, affirmed in *Public Service Commission of Kentucky* v. *Kentucky Natural Gas Corporation,* 119 F. 2d 417.

It would destroy the effectiveness of the Act and defeat the intent of Congress that there should be federal regulation of interstate wholesale sales of natural gas which are not subject to state regulation, to hold that the "production or gathering" provision in Section 1 (b) exempts from federal regulation interstate wholesale sales which cannot, under the Constitution, be regulated by the states." Sellers of natural gas in interstate commerce could easily avoid regulation as intended by the simple device of selling the gas in the field, if petitioner's contention were accepted. It is a fundamental rule of statutory construction that it cannot be presumed that the legislature will do a futile thing and further that statutes must be construed so as to achieve an effective and operative result. Horack, Sutherland Statutory Constructon, 3rd ed., Vol. 2, sec. 4510, p. 327.

The Petitioner has repeatedly implicitly accepted the interpretation of subsection 1 (b) here contended for by the Commission in matters arising before the Commission which it did not contest in the courts.

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[11] The State of Louisiana does regulate the "production" of natural gas in the interest of conservation. Dart, Louisiana General Statutes, Vol. 3, Chapters 5A-14, secs. 4741.11-4804. Louisiana also levies, in addition to a natural gas pipe-line tax, and a natural gas severance tax, a tax upon all persons engaged in gathering gas produced in the state. Dart, **Ibid.**, secs. 8787.18 to 8787.28 (Acts 1944, No. 132). "Gathering gas" is defined as "the first taking or the first retaining of possession of gas produced in Louisiana for transmission through a pipe-line after severance of such gas and after the passage of such gas through any separator, drip, trap or meter that may be located at or near the well."

By order dated April 28, 1942, in *Matter of Interstate Natural Gas Company, Inc.*, Docket No. G-218, the Commission found that Interstate Natural Gas Company, Inc., Rate Schedule FPC No. 15, and supplements thereto, was a rate schedule for a sale for resale in interstate commerce subject to the jurisdiction of the Commission and that Interstate was a natural-gas company under the Act. Interstate assented to the Commission's ruling. This rate schedule FPC No. 15, which is one of those involved in the present case, being Exhibit No. 11 (though not in issue in the petition for review) is for the sale of gas to United Gas Pipe Line Company with delivery at the inlet of Interstate's DeSiard Compressor Station situated near Fowler, Louisiana, not far from the Guthrie Compressor Station where the sale to United for account of Memphis, now in issue in the present case takes place. See Appendices C and D to this brief.

There is no material difference in the character of the sale between the sale and delivery to United Gas Pipe Line at the DeSiard Compressor Station and the sale and delivery to Memphis at the Guthrie Compressor and the latter is no more a part of "production or gathering" than the former. Yet Petitioner accepted the Commission's jurisdiction as to the former sale in connection with Docket No. G-218 and in the present case concedes the Commission's jurisdiction as to the former sale (Interstate Rate Schedule FPC No. 15) by accepting the rate reduction ordered by

the Commission as to this schedule in its order of April 27, 1943 (see page 7 of Petitioner's brief) though it contests the Commission's jurisdiction as to the latter (Interstate Rate Schedule FPC No. 6, Exhibit No. 12).

By an order of November 20, 1939 in Docket #G-146, the Commission suspended Interstate Rate Schedule F. P C. No. 4 (also here in issue), thereby further treating it as a rate schedule subject to its jurisdiction. By its order of April 20, 1940, in the same docket number (2 F. P. C. 727), the Commission ordered that the proposed increased rates and charges should not become effective, and that Interstate Rate Schedule F. P. C. No. 4 and supplements should continue in effect as in effect November 20, 1939, thereby further asserting its jurisdiction on that rate schedule. By order of June 14, 1940, in the same case (2 F. P. C. 766), the Commission denied an application for rehearing. The Commission then reopened the case and set it for further hearing (2 F. P. C. 770, 791) on the subject of affiliation between Interstate and Mississippi River Fuel Corporation through control by stock ownership by Standard Oil Company (New Jersey) and syndicate control.

The petitioner, however, contends that the Commission's opinion in *Matter of Columbian Fuel Corporation,* 2 F. P. C. 200, in which a rate suspension proceeding was dismissed by the Commission because the rates involved were for sales made by a producer and gatherer of natural gas at the termini of its gathering lines, is controlling.

A careful examination of the Commission's Columbian Fuel Corporation opinion and order discloses that the Commission strictly limited the scope of its decision:

First, it appears to have considered that Columbian Fuel was "a company engaged *exclusively* in the production and gathering of natural gas which also sold gas in interstate commerce for resale." (Emphasis supplied.) See majority opinion (2 F. P. C. 203) and the dissenting opinion (2 F. P. C. 212). On page 208, the opinion limits its decision to "persons whose only sales of natural gas in interstate commerce, as in this case, are made as an incident to and immediately upon completion of such person's production and gathering of said natural gas *and who are not otherwise subject to the jurisdiction of this Commission.*" (Emphasis supplied.)

Secondly, the opinion points out on page 208:

> Further experience with the administration of the Natural Gas Act may reveal that the initial sales of large quantities of natural gas which eventually flow in interstate commerce are by producing or gathering companies which, through affiliation, field agreement, or dominant position in a field, are able to maintain an unreasonable price despite the appearance of competition.

The Commission says that "under such circumstances the Commission will decide whether it can assume jurisdiction over arbitrary field prices under the present Act" or not.

The Columbian Fuel decision, therefore, is not persuasive in the present case:

(1) Because Interstate is not "engaged exclusively in the production and gathering of natural gas" and because it is "otherwise subject to the jurisdiction of this Commission" in that it is otherwise an interstate natural gas pipe line company and a natural-gas company under the Natural Gas Act. R. 58, 59, 81, 82.

(2) Because there is evidence as found by the Commission of "affiliation, field agreement, or dominent position in a field" R. 59, 63.

Administrative agencies such as the Federal Power Commission are not controlled by the principle of *res judicata* or *stare decisis,* but even if they were it could not be contended that the Columbian Fuel Corporation decision is applicable to the facts of the present case.

The Commission's opinion in the *Columbian Fuel Corporation* case, moreover, has been distinguished, and inferentially disapproved, by the United States Court of Appeals for the District of Columbia in *The Peoples Natural Gas Co.* v. *Federal Power Commission*, 127 F. 2d 153, on p. 155 (cert. den. 316 U. S. 700). The Court of Appeals there said, rejecting the same contention regarding the "production or gathering" provision urged by petitioner: "We cannot disregard the plain language of the statute because the Commission at one time interpreted it narrowly", citing *"In the Matter of Columbian Fuel Corp.*, Opinion No. 48 (Docket No. G-143), 35 P. U. R., N. S., 3."

Once *The Peoples Natural Gas Co.* case, *supra,* was decided holding that a sale of natural gas by the producing company (Peoples), delivered at the edge of the producing basin, upon completion of production and gathering, to New York State Natural Gas Corporation, which then transported the gas into another state and sold it to others for resale to ultimate consumers located in that state, was a sale of naural gas in interstate commerce for resale subject to the jurisdiction of the Commission, and not exempt by the provision in subsection 1 (b) relative to "production or gathering", the Commission was duty bound to following the principles of law laid down in that decision, regardless of implications to the contrary, if any, in its prior opinion in the *Columbian Fuel Corporation* case.

Certainly there was nothing arbitrary in thus following the decision of the United States Court of Appeals for the District of Columbia in *The Peoples Natural Gas Co.* v. *Federal Power Commission, supra,* nor any denial of due process as claimed by petitioner.

As was said by Justice Brandeis in delivering the opinion of the Court in *Georgia Public Service Commission* v. *United States,* 283 U. S. 765, at p. 775:

> It is not our province to inquire into the soundness of the Commission's reasoning, the wisdom of its decisions, or the consistency of its conclusions with those reached in similar cases.

Cf. *Youngstown Sheet and Tube Co.* v. *United States*, 7 F. Supp. 33, 36, aff. 295 U. S. 476, rehearing denied, 296 U. S. 661.

The *Peoples* case is on "all fours" with the case at bar. In the *Peoples* case, the natural-gas company produced and purchased gas, gathered, sold and delivered it within the producing basin or field in Pennsylvania to New York State Natural Gas Corporation, which then transported the gas into the State of New York for resale for ultimate public consumption. The exact question at issue in the present case also came before the United States Court of Appeals for the District of Columbia for decision in the case of *Peoples Natural Gas Co.* v. *Federal Power Commission*, 127 F. 2d. 153, certiorari denied 316 U. S. 700. In that case, the Commission filed a motion in the District Court of the District of Columbia to compel the company, as a natural-gas company, to obey the Commission's subpoena. The answer of Peoples challenged the jurisdiction of the Commission. The District Court gave judgment for the Commission on the pleadings. The Court of Appeals, in its opinion on page 157, found that "the motion asserted, and the answer did not deny, facts from which jurisdiction follows" and affirmed the lower court in ordering compliance with the subpoena. The Court of Appeals rejected the claim of The Peoples Company that the Commission was without jurisdiction because it appeared from the moving papers that Peoples sold natural gas at its Pew Compressor Station in Clarion County, Pennsylvania, allegedly in the

course of production and gathering, to New York State Natural Gas Corporation, an affiliated company, and that the latter immediately transported the natural gas into the State of New York, where it sold it to others for resale for ultimate public consumption. The Peoples Company contended (see page 155 of the opinion) that "the Natural Gas Act does not give the Commission jurisdiction over all sales of natural gas in interstate commerce."

The contention of Peoples that the Commission had no jurisdiction over its sale of gas to New York State Natural Gas Corporation at the Pew Compressor station was made in its answer to the Order to Show Cause in the case before the Commission, dated June 28, 1940, filed in the United States District Court as Exhibit "1" to its Answer and Points in that Court. Paragraph (1) (g) of the Answer to the Order to Show Cause alleged as follows: "The sale of gas by Respondent to New York State Natural Gas Corporation involves only the production and gathering of natural gas, which activities are specifically exempt from regulation * * * under the Natural Gas Act; and such sale does not involve any transportation of natural gas in interstate commerce or the 'sale in interstate commerce of natural gas for resale for ultimate public consumption' within the contemplation of the Natural Gas Act.[39]"

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[39] On page 8 of its brief in the Court of Appeals, the Peoples Company contended that Federal Power Commission lacked any conceivable jurisdiction, and that it is admittedly "without general jurisdiction," citing **Columbian Fuel Corporation,** 35 PUR (N. S.)

The Court of Appeals for the District of Columbia in its opinion rejected this contention of Peoples, pointing out on page 155 of its opinion:

> The sales thus described are sales in interstate commerce. Appellants urge that the Natural Gas Act does not give the Commission jurisdiction over all sales of natural gas in interstate commerce. But the Natural Gas Act does apply, among other things, to "the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use." That language exactly covers the sales discussed in Exhibit F. We cannot disregard the plain language of the statute because the Commission at one time interpreted it narrowly (here citing in a footnote *In the Matter of Columbian Fuel Corporation,* Opinion No. 48, Docket No. G-143, 35 P. U. R. (N. S. 3), or because the reports of Congressional committees

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3. It added that it was subject to complete regulation by Pennsylvania and that a State rate investigation was in process.

In the Company's reply brief, on pages 19-22, it was claimed that People's sells to other companies for resale a minor part of its gas, that the sale to New York State Natural in Pennsylvania for resale is completely regulated by the Pennsylvania Commission, and that Federal Power Commission is without authority to regulate matters subject to state regulations. It was also contended that the **Columbian Fuel Case** applied, adding that: "There the Commission held that it had no jurisdiction over a company which was engaged in producing and gathering natural gas in Kentucky and, at the termini of its gathering lines, selling that gas in Kentucky to another company which transported and resold the gas as in interstate commerce outside Kentucky. Nothing more is involved in this case" (P. 22).

> show an intention not to "disturb" state regulation, or because appellants fear duplicate regulation. The Act applies to "natural-gas companies engaged in such * * * sale," and defines "natural-gas company" as a company "engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale."

Again the Court of Appeals said in the *People's* case, on petition for rehearing,[11] at page 157 in making its holding denying the petition for rehearing:

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[11] On petition for rehearing in the Court of Appeals, the Company asserted (pp. 7-10) that sale by Peoples to New York State Natural "is in fact within a gathering field (after some degree of transportation involved in the mere 'production or gathering of natural gas' specifically exempted in Section 1 (b) of the Act)," and that this sale is not one "in interstate commerce." After a comprehensive collection of cases, the petition traces the steps leading to and through interstate transportation. On page 13 of the petition, the claim is made that "the next step in the process of commerce, after production or manufacture, is a wholly local sale, or series of sales, whereby the locally resident seller merely relinquishes title and possession without undertaking any part in interstate transportation. Interstate commerce * * * has not yet begun." On page 33 of the petition is quoted Mr. DeVane's testimony in the Hearings on H. R. 11662, 74th Congress, Second Session 1936, that the Commission had no jurisdicton under that bill over the "gathering rate" charged by a local gas supplier to a pipeline company which transports such gas into another State and sells it to a local distributing company. It is contended that the legislative history of the Act shows lack of Federal Power Commission jurisdiction over the sale involved. In concluding, the petition emphasizes on pages 37-38 that the facts pleaded specify a sale incident "to the production or gathering of natural gas" which is specifically excluded from Federal Power Commission jurisdiction by the express terms of Section 1 (b) of the Act, and without any further activity by Peoples. Furthermore, it is asserted that

> Appellants urge that the Company's sales to the New York company, for transportation to New York and resale, are not "sale(s) in interstate commerce" of natural gas for resale within the meaning of the Natural Gas Act. 15 U. S. C. A. § 717 et seq. Their position is not that Congress could not, but that it did not, authorize the Commission to regulate such sales. We think the position untenable.

The Peoples Company filed a petition for certiorari in the United States Supreme Court but the petition was denied." 316 U. S. 700.

The Peoples Natural Gas Company case decided by the United States Court of Appeals for the District of Columbia holds, therefore, that a sale of natural gas in interstate commerce to a pipe line company for resale for ultimate public consumption, similar to the sales here involved and bearing the same relation to "production or gathering," are sales of natural gas subject to the jurisdiction of the Federal Power Commission under the Natural Gas Act and not exempt as "production or gathering" reserved to the States for regulation by Section 1 (b) of the Act.

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the sale to New York State Natural is incidental to Peoples' business of "producing and gathering natural gas, and, selling it locally; that the gas so sold is delivered at a point approximately 100 miles within the borders of Pennsylvania, within Appellant's producing field, and at the termini of Appellant's gathering lines; that this sale is completely regulated by the Public Utility Commission of Pennsylvania * * *."

" In the Peoples brief supporting its petition, all of the foregoing contentions were repeated, and the following language was used (p. 15):

"Under the terms of the Natural Gas Act exempting therefrom

It should be noted that the statement regarding the *Peoples* case on pages 31 and 32 in Petitioner's brief is thoroughly inaccurate in the light of the above statement of the facts.

The holding of the United States Court of Appeals for the District of Columbia in the *Peoples* case, as to which a writ of certiorari was denied by the United States Supreme Court, is further supported by the decisions of

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the production and gathering of natural gas, and the construction placed by the Commission itself upon that language of the statute In the Matter of Columbian Fuel Corporation, 35 PUR (N. S.) 3, it is of utmost importance that the sale to the New York State Natural Gas Corporation is made and the gas delivered at the edge of the producing basin, upon completion of the production and gathering of the gas."

In the Commission's brief in opposition to certiorari it is contended that (pp. 11-13): (1) it is settled that a sale of commodities for transportation and use in interstate commerce is a transaction "in interstate commerce." **Currin** v. **Wallace**, 306 U. S. 1, 10; **United States** v. **Rock Royal Co-op.**, 307 U. S. 533, 568-569; **Illinois Nat. Gas. Co.** v. **Central Ill. Pub. Serv. Co.**, 314 U. S. 498; (2) prior to enactment of the Gas Act, the sale of gas or electricity at wholesale in the state of origin for resale in another state was held to constitute interstate commerce beyond the reach of state regulation. **Missouri** v. **Kansas Gas Co.**, 265 U. S. 298; **Pub. Util Comm.** v. **Attleboro Co.**, 273 U. S. 83; cf. **Pub. Util. Comm.** v. **Landon**, 249 U. S. 236, 245; **United Fuel Gas Co.** v. **Hallanan**, 257 U. S. 277; **East Ohio Gas Co.** v. **Tax Comm.**, 283 U. S. 465, 470; **Peoples Gas Co.** v. **Public Serv. Comm.**, 270 U. S. 550, 554; (3) it is immaterial that the sale is made by the producer at the place of production. **Peoples Gas Co.** v. **Public Serv. Comm.**, 270 U. S. 550, 554; **East Ohio Gas Co.** v. **Tax Comm.**, 283 U. S. 465, 470; (4) if the Company claims that a sale of commodities for interstate transportation is no part of "interstate commerce" and that such commerce does not begin until the interstate movement begins, the argument is untenable. **Currin** v. **Wallace**, 306 U. S. 1, 10; **Lemke** v. **Farmers Grain Co.**, 258 U. S. 50, 55.

the Supreme Court in the cases of *Canadian River Gas Company* v. *Federal Power Commission,* 324 U. S. 581 and *Panhandle Eastern Pipe Line Co.* v. *Federal Power Commission,* 324 U. S. 635.

Petitioner, on pages 52-53 of its brief, quotes dicta from the opinion of the Circuit Court of Appeals for the Tenth Circuit in the *Canadian River Company* case (142 F. 2d 943) favorable to its contention. The Circuit Court of Appeals dicta, of course, are not significant after the Supreme Court of the United States has handed down its decision and opinion in the same case."

It was contended by the natural-gas company in the *Canadian River Gas Company* case that the "production or gathering" provision in subsection 1 (b) of the Act meant that production and gathering properties of the company were to be excluded from its rate base and the cost of producing and gathering natural gas not allowed in its operating expenses.

The Supreme Court in rejecting this contention, on pages 597-598, said:

> It is pointed out that §1 (a) declares that "the business of transporting and selling natural gas" for ultimate distribution to the public is affected with a public interest and that federal regulation "in matters relating to the transportation of natural gas and the sale thereof" in interstate commerce is

" Curiously petitioner does not quote from the majority opinion of Supreme Court.

necessary in the public interest. *Transportation and sale do not include production or gathering.* Other sections emphasize the distinction. Thus § 4 and § 5, the rate regulating provisions of the Act, refer to charges for the "transportation or sale of natural gas, subject to the jurisdiction of the Commission." [Italics supplied.]

In making its ruling, the Court, on page 601, further said:

> When a natural-gas company which owns producing properties or a gathering system is restricted in its earnings by a rate order, the value of all of its property is affected. Congress of course *might have provided that producing or gathering facilities be excluded from the rate base and that an allowance be made in operating expenses for the fair field price of the gas as a commodity.* Some have thought that to be the wiser course. But we search the Act in vain for any such mandate. [Italics supplied.]

Of Canadian's argument that this was what was intended by Congress, the Court said (page 600):

> *This is precisely the argument which West Virginia, appearing as amicus curiae, advanced in the Hope Natural Gas Co. case. We rejected the argument in that case.* 320 U. S. pp. 607-615, particularly page 614, nt. 25, 64 S. Ct. 290-294, 88 L. Ed. 333. We have reviewed it here at this length in view of the seriousness with which it has been urged not only by

> Canadian but also by the Independent Natural Gas Association of America which appeared *amicus curiae*. But we adhere to our decision in the *Hope Natural Gas Co.* case and will briefly state our reasons. [Italics supplied.]

The Supreme Court's opinion concludes on this point (pages 602-603):

> That does not mean that the part of § 1 (b) which provides that the Act shall not apply "to the production or gathering of natural gas" is given no meaning. Certainly that provision precludes the Commission from any control over the activity of producing or gathering natural gas. For example, it makes plain that the Commission has no control over the drilling and spacing of wells and the like. It may put other limitations on the Commission. We only decide that it does not preclude the Commission from reflecting the production and gathering facilities of a natural gas company in the rate base and determining the expenses incident thereto for the purposes of determining the reasonableness of rates subject to its jurisdiction.

It is hardly proper to speculate on the probable complexion of the Supreme Court in the event that this case comes before it, as suggested by petitioner. Whatever Justice Jackson's reasoning in his concurring opinion in the *Canadian River* case may or may not lead to in its implications, the fact remains that he concurred with the majority of the court in allowing a rate determined on a rate base including production and gathering properties and by allowing as expense the cost of producing and

gathering the gas. The decision of the majority is clearly and logically bottomed on the strict interpretation of the "production or gathering" provision of subsection 1 (b) here contended for by the Commission and not on the broad interpretation adopted in the dissenting opinion written by the late Chief Justice Stone in the *Canadian River Company* case.

The same contention was made by the Panhandle Company in *Panhandle Eastern Pipe Line Co.* v. *Federal Power Commission,* 324 U. S. 635, and was likewise rejected by the Supreme Court in that case in the following excerpt from its opinion (page 649):

> This phase of the case is controlled by *Canadian River Gas Co.* v. *Federal Power Commission,* supra. We need not repeat what we said there. It is clear that the value of producing properties and gathering facilities is affected whenever rates are fixed. That is inevitably true whether the leaseholds are put into the rate base or whether as petitioner urges the gas is valued as a commodity. That result is not avoided unless Congress puts a floor under production properties and gathering facilities of natural gas companies and fixes a minimum return on them. That Congress has not done. As Judge Sanborn aptly stated in the opinion of the Circuit Court of Appeals: "If there is an infirmity in the Commission's determination of the amount which should be included in the rate base as the cost or value of such

facilities, we think the infirmity arises from the method used in making the valuation, and not from any lack of jurisdiction." 143 F. 2d at page 495. Petitioner, moreover, failed to object in its application for rehearing before the Commission to the inclusion of its producing properties and gathering facilities in the rate base. It is accordingly precluded by § 19 (b) of the Act, from attacking the order of the Commission on the ground that they are included.

* * *

CONCLUSION

It accordingly is submitted that the Commission's orders under review should be affirmed, since

(1) The Commission had jurisdiction, and

(2) The Commission orders do not result in confiscation.

Respectfully submitted.

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General Counsel,

CHARLES E. MCGEE,
Assistant General Counsel,

LOUIS W. MCKERNAN,
MILFORD SPRINGER,

HOWELL PURDUE,
Attorneys for the
Federal Power Commission.

MAY 9, 1946.

* * *

APPENDIX B

The Senate and House Committee Reports on the bill H. R. 6586, which became the Natural Gas Act, are identical so the Senate Report No. 1162, 75th Congress, 1st Session, is reproduced here for the convenience of this Court:

INTERSTATE TRANSPORTATION AND SALE OF NATURAL GAS

AUGUST 9 (calendar day, AUG. 11), 1937.—Ordered to be printed

Mr. WHEELER, from the Committee on Interstate Commerce, submitted the following

REPORT

[To accompany H. R. 6586]

The Committee on Interstate Commerce, to whom was referred the bill (H. R. 6586) to regulate the transportation and sale of natural gas in interstate commerce, and for other purposes, having considered the same, report thereon with a recommendation that it pass without amendment.

Report No. 709 on the bill (H. R. 6586) explains well and analyzes thoroughly the bill. The Committee on Interstate Commerce feel there is nothing they wish to add to this report which for the benefit of the Senate is herewith appended.

[H. Rept. No. 709, 75th Cong., 1st Sess.]

The Committee on Interstate and Foreign Commerce,

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to whom was referred the bill (H. R. 6586) to regulate the transportation and sale of natural gas in interstate commerce, and for other purposes, having considered the same, report thereon with a recommendation that it pass.

It was originally introduced as H. R. 4008.

GENERAL PURPOSES OF THE BILL

The bill is substantially identical with H. R. 12680 which, as amended, was reported by the Committee on Interstate and Foreign Commerce of the Seventy-fourth Congress, second session, with a recommendation that it pass. If enacted, the present bill would for the first time provide for the regulation of natural-gas companies transporting and selling natural gas in interstate commerce. It confers jurisdiction upon the Federal Power Commission over the transportation of natural gas in interstate commerce, and the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use. The States have, of course, for many years regulated sales of natural gas to consumers in intrastate transactions. The States have also been able to regulate sales to consumers even though such sales are in interstate commerce, such sales being considered local in character and in the absence of congressional prohibition subject to State regulation. (See *Pennsylvania Gas Co.* v. *Public Service Commission* (1920), 252 U. S. 23.) There is no intention in enacting the present legislation to disturb the States in their exercise of such jurisdiction. However, in the case of sales for resale, or so-called wholesale sales, in interstate commerce (for example, sales by producing companies to distributing companies) the legal situation is different. Such transactions have been con-

sidered to be not local in character and, even in the absence of Congressional action, not subject to State regulation. (See *Missouri* v. *Kansas Gas Co.* (1924), 265 U. S. 298, and *Public Service Commission* v. *Attleboro Steam & Electric Co.* (1927), 273 U. S. 83.) The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the States may not act.

In 1934, 24 States produced natural gas, and 35 States consumed it. The annual sale of natural gas in that year amounted to 1,764,988,000,000 cubic feet. The sale of this gas brought a revenue of $394,000,000. Of this amount, about $260,000,000 was in payment for gas transported in interstate commerce. During 1935 there was some increase in the pipe-line mileage and in the transportation of natural gas in interstate commerce.

The average price per thousand cubic feet for domestic use was 74.6 cents; for commercial use, 49.6 cents; and for all other industrial uses, 16.9 cents. This gas was consumed by 7,600,000 customers.

There are today substantially in excess of 50,000 miles of gas pipe lines in the United States. While natural gas has been in use for 50 years or more in this country, and while there was some transportation in interstate commerce prior to 1926, the substantial development in the industry has occurred since that year.

The bill provides for regulation of the exportation and importation of natural gas and authorizes the Commission to ascertain the cost of property used in rendering service; to direct extension or improvement of transportation facilities, and require the interconnection of facilities; to regulate the abandonment of service; to prescribe a uniform

system of accounts; to determine proper depreciation rates; to fix rates and charges for natural gas sold for resale for ultimate public consumption; to investigate compacts between the States; to compile information relative to the effect and operation of any compacts between the States; and to make investigations and report to Congress respecting the natural-gas industry. The bill takes no authority from State commissions, and is so drawn as to complement and in no manner usurp State regulatory authority, and contains provisions for cooperative action with State regulatory bodies. Mr. John E. Benton, general solicitor of the National Association of Railroad and Utilities Commissioners, and other representatives of State commissions and municipalities, appeared at the hearing before the committee in support of the bill.

The general attitude of the State regulatory commissions was indicated in a communication from Mr. Benton to the chairman, House Interstate and Foreign Commerce Committee, under date of March 29, 1937, enclosing a copy of a resolution adopted by the executive committee of the National Association of Railroad and Utilities Commissioners on March 26, 1937, as follows:

NATIONAL ASSOCIATION OF RAILROAD AND
UTILITIES COMMISSIONERS,
Washington, D. C., March 29, 1937.

Hon. CLARENCE F. LEA,
Chairman, House Interstate and
Foreign Commerce Committee,
Washington, D. C.

DEAR SIR: A joint meeting of the executive committee of this association and of the association's committee

on legislation was held on March 26, 1937, for the consideration of legislative matters.

The provisions of H. R. 4008 were considered for the purpose of determining whether that bill will provide regulation of the character requested in the resolution heretofore adopted by this association, and presented at the hearing on March 24, 1936. Consideration was also given to the situation existing in Illinois, where the Illinois Commission finds itself impeded by injunction proceedings in the Federal courts in its undertaking to discover what it costs the interstate pipe-line company to deliver gas in Illinois, although the commission is seeking that information only for the purpose of determining what the reasonable expenses of the local distributing company ought to be, and what price for gas sold in the Chicago areas should be approved by the commission as just and reasonable.

A resolution was unanimously adopted endorsing H. R. 4008, amended as requested on behalf of this association at the hearing on March 24. I attach a copy of the resolution hereto, and ask that it be printed as if presented at the hearing.

Yours very truly, JOHN E. BENTON,
General Solicitor.

"RESOLUTION ADOPTED BY THE EXECUTIVE COMMITTEE OF THE NATIONAL ASSOCIATION OF RAILROAD AND UTILITIES COMMISSIONERS ON MARCH 26, 1937

"*Resolved by the executive committee of the National Association of Railroad and Utilities Commissioners,* That the position of said association declared by resolution at its forty-seventh annual convention, in favor of the enact-

ment of Federal legislation providing for the regulation of the interstate transmission and sale of gas at wholesale for resale is hereby reaffirmed; and

"*Resolved further,* That for the purpose of providing such regulations said association endorses H. R. 4008, an act to regulate the transportation and sale of natural gas in interstate commerce, introduced by Congressman Lea, of California, with the amendments proposed thereto at the hearing before the House Interstate and Foreign Commerce Committee on behalf of the association on March 24, 1937; and

"*Resolved further,* That the necessity for such regulation is increasingly imperative, and that the enactment of H. R. 4008, amended as proposed, at the present session of Congress is earnestly urged on behalf of said association."

The bill provides for regulation along recognized and more or less standardized lines. There is nothing novel in its provisions, and it is believed that no constitutional question is presented.

Your committee believes that this legislation is highly desirable to fill the gap in regulation that now exists by reason of the lack of authority of the State commissions.

In view of the importance of section 1 (b), which states the scope of the act, it seems advisable to comment on certain provisions appearing therein. It will be noted that this subsection of the bill, after affirmatively stating the matters to which the act is to apply, contains a provision specifying what the act is not to apply to, as follows: "but

shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas."

The quoted words are not actually necessary, as the matters specified therein could not be said fairly to be covered by the language affirmatively stating the jurisdiction of the Commission, but similar language was in previous bills, and, rather than invite the contention, however, unfounded, that the elimination of the negative language would broaden the scope of the act, the committee has included it in this bill. That part of the negative declaration stating that the act shall not apply to "the local distribution of natural gas" is surplusage by reason of the fact that distribution is made only to consumers in connection with sales, and since no jurisdiction is given to the Commission to regulate sales to consumers the Commission would have no authority over distribution, whether or not local in character.

It was urged in connection with earlier bills that there should be inserted at the end of this subsection a proviso as follows:

"*Provided,* That nothing in this Act shall be construed to authorize the Commission to fix the rates or charges to the public for the sale of natural gas distributed locally."

In order to avoid misunderstanding the committee thought it necessary to omit this proviso from the present bill for the following reasons, even though there is entire agreement with the intended policy which would have prompted its inclusion: First, it would have been surplusage if interpreted as it was intended to be interpreted, and,

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second, it would have been, in all likelihood, a source of confusion if interpreted in any other way. For example, it was felt that in the effort to find a reason for its inclusion it might have been argued that it exempted sales to a publicly owned distributing company, and such an exemption is not, of course, intended. It is believed that the purposes of this proviso, assuming the need for any such provision, are fully covered in the present provision by the language—"but shall not apply to any other * * * sales of natural gas."

SECTIONAL ANALYSIS OF THE BILL

Section 1. Necessity for Regulation of Natural-Gas Companies

Subsection (a) contains a declaration of policy, states the necessity for Federal regulation, and defines the scope of that regulation. The subsection declares that the business of transporting and selling natural gas in interstate and foreign commerce for ultimate distribution to the public is affected with a public interest.

Subsection (b) confers jurisdiction upon the Commission over the transportation of natural gas in interstate commerce and the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use.

Section 2. Definitions

This section contains definitions of (1) "person," (2) "corporation," (3) "municipality," (4) "State," (5) "natural gas," (6) "natural-gas company," (7) "interstate commerce," (8) "State commission," and (9) "Commission"

and "Commissioner." The definitions as they appear are self-explanatory and necessary to the proper administration of the bill.

Section 3. Exportation or Importation of Natural Gas

This section provides that after 6 months from the date of enactment no person may export or import natural gas without express approval of the Commission, such approval to be granted unless such exportation or importation will not be consistent with the public interest.

Section 4. Rates and Charges; Schedules; Suspensions of New Rates

Subsection (a) imposes upon natural-gas companies the duty of charging just and reasonable rates; and, under the provisions of subsection (b), undue preferences or advantages are prohibited.

Subsection (c) requires the filing of schedules and contracts relating to all rates and charges subject to the jurisdiction of the Commission; and, under the provisions of subsection (d), no change may be made in such rates except after 30 days' notice.

Subsection (e) authorizes the Commission to hold hearings concerning the lawfulness of any proposed change in rates, and to suspend such rates for not over 5 months, pending such hearing. If the Commission investigation has not been completed before the rates go into effect, the Commission may require the natural-gas company to make refunds if the increase is not approved; and it is provided that adequate bond be furnished to that end. The burden of proof is placed upon the natural-gas company to justify any increase in rates, and the hearing and decision of such

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matters is given preference over other matters pending before the Commission.

Section 5. Fixing Rates and Charges; Determination of Cost of Production or Transportation

Subsection (a) authorizes the Commission, after a hearing initiated by it, or upon complaint, to fix charges and reasonable rates for any transportation or sale subject to its jurisdiction.

Subsection (b) authorizes the Commission upon its own motion, or upon the request of a State commission, to investigate and determine the cost of production or transportation of natural gas in cases where the Commission has no authority to establish a rate governing the transportation or sale of such natural gas. This subsection applies only to cases involving transportation of natural gas in interstate commerce and will greatly aid State commissions in their rate-making proceedings.

Section 6. Ascertainment of Cost of Property

Subsection (a) authorizes the Commission to investigate and ascertain the actual legitimate cost of property, depreciation, and other necessary facts for rate-making purposes.

Subsection (b) requires every natural-gas company upon request to file with the Commission an inventory of its property, and a statement of the original cost thereof, and to keep the Commission informed regarding additions, betterments, extensions, and new construction.

Section 7. Extension of Facilities; Abandonment of Service

Subsection (a) authorizes the Commission to direct a natural-gas company to extend or improve its facilities, and to establish physical connection and sell natural gas to any person or municipality engaged, or legally authorized to engage, in the local distribution of natural or artificial gas to the public, upon a finding that such an action is necessary or desirable in the public interest, but does not give the Commission authority to compel such extension or establishment of physical connection when to do so would impair the ability of the natural-gas company to render adequate service to its existing customers or involve the enlargement of transportation facilities.

Subsection (b) requires approval of the Commission by any natural gas company desirous of abandoning any or all of its facilities subject to the jurisdiction of the Commission. The Commission is authorized to approve such abandonment if it finds that the available supply of natural gas is depleted to the extent that the continuance of service is unwarranted or that the present or future public convenience or necessity permits such abandonment.

Subsection (c) provides that no natural-gas company shall undertake the construction or extension of any facilities for the transportation of natural gas to a market in which natural gas is already being serviced by another natural-gas company, or acquire or operate any such facilities or extensions thereof, or engage in transportation by means of any new or additional facilities, or sell natural gas in any such market without a certificate of public convenience and necessity from the Commission. There is a

proviso that a natural-gas company already serving a market may enlarge or extend its facilities for the purpose of supplying the increased market demands in the territory in which it operates. There are similar provisions requiring certificates of public convenience and necessity for extensions of service in the Interstate Commerce Act (U. S. C., 1934, title 49, sec. 1 (18-20)); the Communications Act of 1934 (U. S. C., 1934, title 47, sec. 214), and the Motor Carriers Act (U. S. C., 1934, title 49, secs. 306, 307, 308).

Section 8. Accounts, Records, and Memoranda

Subsection (a) requires natural-gas companies to make and keep such accounts, records, and memoranda as the Commission may direct. However, natural-gas companies are not relieved by this subsection from the duty of keeping such accounts as may be prescribed under the laws of any State.

Subsection (b) authorizes the Commission to inspect and examine accounts, records, and memoranda of natural-gas companies and to have access to the premises of such companies when necessary for that purpose.

Subsection (c) subjects the accounts of any person who controls, directly or indirectly, a natural-gas company, subject to the Commission's jurisdiction, to examination by the Commission.

Section 9. Rates of Depreciation

The Commission is authorized to require proper depreciation accounting and to determine and fix adequate depreciation rates, such rates to include amortization. The

depreciation charges which a State commission may fix for rate purposes would not be affected by this section.

Subsection (b) requires the Commission to receive and consider the views of State commissions before prescribing depreciation rates.

Section 10. Periodic and Special Reports

The Commission by this section is authorized to require periodic and special reports which may be necessary for the proper administration of the act, and prescribe the manner and form in which the reports shall be made. It is declared to be unlawful for any person willfully to hinder or obstruct the making or filing of any information, report, or account required to be made, filed, or kept by the Commission.

Section 11. State Compacts; Reports on

Subsection (a) imposes the duty upon the Commission to assemble pertinent information with reference to the subject matter of any proposed compacts between two or more States, and requires the Commission to make such information public and report the same to the Congress, together with such recommendations for further legislation as appear to be appropriate or necessary to carry out the purposes of such proposed compact and to aid in the conservation of natural-gas resources within the United States.

Subsection (b) requires the Commission to assemble and keep current pertinent information with respect to the effect and operation of any compact between the States heretofore or hereafter approved by the Congress, and to make such information public and report to the Congress

and make such legislative recommendations as are appropriate to promote the purposes of such compact.

Subsection (c) authorizes the Commission to avail itself of the services, records, and information of the various departments and agencies of the Government, and authorizes the President to direct that such services and facilities of such agencies be made available to the Commission.

Section 12. Officials Dealing in Securities

This section makes unlawful personal profit by an official or a director of a natural-gas company through the negotiation, hypothecation, or sale of any security issue by any such company.

Section 13. Complaints

Under this section any State, municipality, or State commission may complain to the Commission of anything done or omitted to be done by any natural-gas company in contravention of the provisions of the bill.

Section 14. Investigations by Commission; Attendance of Witnesses; Depositions

The Commission is authorized by subsection (a) to investigate any violation of the provisions of the Natural Gas Act, and may make available to State commissions and municipalities any information concerning the matters to which the bill relates.

Subsection (b) provides that the Commission may, after a hearing, determine the adequacy or inadequacy of the gas reserves held or controlled by any natural-gas company or by anyone on its behalf, including its owned or

leased properties or royalty contracts, and may also, after hearing, determine the propriety and reasonableness of the inclusion in operating expenses, capital, or surplus, of all delay rentals or other forms of rental or compensation for unoperated lands and leases.

Subsections (c) and (d) provide for the issuance of subpenas and the attendance of witnesses, and in the event of refusal to attend or produce books or records, the Commission is given recourse to the courts. A willful failure to attend as a witness or to produce books or records is made a misdemeanor, punishable by fine of not more than $1,000 or imprisonment of not more than 1 year, or both.

Subsections (e), (f), and (g) authorize the taking of testimony by deposition, either in the United States or in a foreign country. Witnesses before the Commission and witnesses giving depositions as well as the person taking the deposition are entitled to the same fees as are paid for like services in the courts of the United States.

No person is excused from giving testimony because it may be self-incriminating, but under subsection (h) the person so testifying may not thereafter be subject to any penalty or forfeiture for or on account of any transaction or thing concerning which he is compelled to testify or to produce evidence. This exemption does not, however, relieve a party from prosecution for perjury.

Section 15. Hearings; Rules of Procedure

Subsection (a) provides that hearings under the Natural Gas Act may be held before the Commission or any member or representative designated by the Commission. It

authorizes the Commission to admit as a party to any proceeding any interested State, State commission, municipality, or private party in accordance with such rules and regulations as the Commission may prescribe.

Subsection (b) authorizes the Commission to adopt rules of practice and procedure governing all its hearings and proceedings. It provides also that no informality in any proceeding shal linvalidate an order or regulation issued under the authority of the act.

Section 16. Administrative Powers of Commission; Rules, Regulations, and Orders

This section contains a general grant of administrative powers to perform necessary acts, issue orders, rules, and regulations and prescribe the form of documents to be filed with the Commission.

Section 17. Use of Joint Boards; Cooperation with State Commissions

Subsection (a) provides that the Commission may refer any matter arising in the administration of the act to a board to be composed of a member or members from the State or each of the States affected or to be affected by such matter.

Subsection (b) authorizes the Commission to confer with any State commission regarding rate structures, costs, accounts, charges, practices, classifications and regulations of natural-gas companies, and to hold joint hearings with any State commission in connection with any matter with respect to which the Commission is authorized to act.

Subsection (c) provides that the Commission shall make

available to the several State commissions such information and reports as may be of assistance in State regulation of natural-gas companies, and further provides that the Commission may, when it can do so without prejudice to the efficient and proper conduct of its affairs, make available to a State commission, upon request, any of its trained rate, valuation, or other experts, as witnesses subject to reimbursement of their compensation and traveling expenses.

Section 18. Appointment of Officers and Employees

This section authorizes the Commission to appoint experts without regard to civil-service laws and other employees subject to the civil-service laws, and to fix salaries in accordance with the Classification Act of 1923.

Section 19. Rehearings; Court Review of Orders

Subsection (a) authorizes parties to a proceeding before the Commission to apply for a rehearing within 30 days after the issuance of an order by which such party is aggrieved. The Commission is given power to abrogate or modify its order upon such application. Unless it acts upon the application within 30 days, the application may be deemed to have been denied. No proceeding for court review of an order of the Commission is to be brought unless an application for rehearing shall have been filed.

Subsection (b) provides for review of the Commission's orders by the circuit courts of appeals and the Court of Appeals of the District of Columbia. No objection to any order is to be considered by the court unless it was urged before the Commission in the application for rehearing, unless there was reasonable ground for failure to raise it

on the application. Findings of the Commission as to the facts, if supported by substantial evidence, are made conclusive, but the court may upon application order additional evidence to be taken before the Commission. The judgment of the court is subject to review by the Supreme Court of the United States upon certiorari or certification.

Section 20. Enforcement of Act; Regulations; and Orders

This section authorizes the Commission to bring a civil action in the proper district court to enjoin acts or practices in violation of the act or any rule, regulation or order thereunder and to enforce compliance therewith.

Subsection (b) confers upon the courts of the United States jurisdiction to issue writs of mandamus commanding compliance with the act and rules, regulations, or orders thereunder.

Subsection (c) authorizes the Commission to employ such attorneys as it needs for its legal work.

Section 21. General Penalties

Subsection (a) imposes a criminal penalty of fine, imprisonment, or both upon any person who willfully and knowingly violates the provisions of the act.

Subsection (b) provides for a fine for violations of the rules, regulations, and orders issued under authority of the act.

Section 22. Jurisdiction of Offenses; Enforcement of Liabilities and Duties

This section imposes appropriate jurisdiction upon the courts of the United States over cases arising under the act.

Section 23. Separability of Provisions

This is the usual separability section saving the rest of the act in case of a decision holding any part invalid.

Section 24. Short Title

The act may be cited as the "Natural Gas Act".

FILED
DEC 21 1953
HAROLD B. WILLEY, Clerk

Nos. 280, 281

Supreme Court of the United States

OCTOBER TERM, 1953

PHILLIPS PETROLEUM COMPANY, *Petitioner,*

v.

STATE OF WISCONSIN, ET AL., *Respondents.*

STATE OF TEXAS, ET AL., *Petitioners,*

v.

STATE OF WISCONSIN, ET AL., *Respondents.*

On Petitions for Rehearing on Petitions for Writs of Certiorari to the Court of Appeals for the District of Columbia Circuit

BRIEF AMICI CURIAE OF STATES OF LOUISIANA, COLORADO, MISSISSIPPI, NORTH DAKOTA, WYOMING, AND THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS.

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On Petitions for Rehearing on Petitions for Writs of Certiorari to the Court of Appeals for the District of Columbia Circuit

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BRIEF AMICI CURIAE OF STATES OF LOUISIANA, COLORADO, MISSISSIPPI, NORTH DAKOTA, WYOMING, AND THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS.

The states of Louisiana, Colorado, Mississippi, North Dakota and Wyoming by their respective Attorney Generals and the State Corporation Commission of the State of Kansas, the body charged with the responsibility of

administering the Oil and Gas Conservation laws of said state, by its General Counsel, file this Brief Amici Curiae pursuant to Rule 27 of this Court, and urge the Court to grant the Petitions for Rehearing filed by the respective petitioners, and upon rehearing to issue a writ of certiorari to review the judgment of the United States Court of Appeals for the District of Columbia.

Each of the states so named is vitally interested in the question presented by this proceeding, i.e., whether independent producers and gatherers may be regulated as natural gas companies under the provisions of the Natural Gas Act. Although the facts now before this Court relate only to the sales of Phillips Petroleum Company, the activities of Phillips involved in this proceeding do not differ substantially from those of hundreds of other independent producers and gatherers of gas who operate in these states. For that reason, this proceeding has been generally regarded as a test case wherein the jurisdiction of the Commission over independent producers and gatherers would be determined.

Each of said states has enacted legislation providing for the conservation of oil and gas and has established administrative agencies authorized to carry out and enforce these laws, with the ultimate purpose being to bring about the greatest conservation of oil and gas for the benefit of the public as a whole. In each of these states, gas is one of the important natural resources of the state and is an appreciable source of revenue to the state and its citizens.

The decision of the majority of the Court of Appeals may require the Federal Power Commission to regulate all sales for resale in interstate commerce and, if so, will increase the number of companies and individuals subject to its jurisdiction from 140 to more than 2,400, approximately 1700 per cent. An entire segment of the industry not heretofore regulated or deemed by the Commission subject to its authority may be subjected to federal regulation. No such drastic change in statutory law should be brought

about by the edict of one Court of Appeals, particularly where, as here, the judges are pointedly divided in their views. Only by the mandate of this Court after full hearing and argument should such change in legislative policy be allowed to take place.

It may be assumed that this Court may review the order at a later stage of the proceedings, but the delay of the several years that will intervene will seriously affect the economy of the producing states, and will interfere with their efforts to prevent physical waste of oil and gas.

The seriousness of the impact upon state regulation of production and gathering of the extension of federal authority to independent producers and gatherers is emphasized by the fact that the Federal Power Commission, *the very agency to which Congress entrusted the administration of the Act*, found that its regulation of independent producers and gatherers "would, by its very nature, be inconsistent or constitute a substantial interference with" state conservation regulations (90 P.U.R. (N.S.) 325, 352). The Court of Appeals did not upset that finding; on the contrary, it treated it as immaterial (205 F. 2d 706, 711, Footnote 11). Thus the effect of the Court of Appeals decision is to require the Federal Power Commission to regulate sales of gas in the field without regard to the effect upon state conservation practices.

There has been for many years a hesitancy on the part of independent producers and gatherers to sell gas to interstate pipe lines for fear that they might thereby be subjected to Federal Power regulation as a natural gas company. The decision of the Court of Appeals has accentuated that fear, and it is probable that producers will in many instances refuse to sell their gas to interstate pipe lines as long as their status under the Natural Gas Act remains in doubt. Such gas may be sold to cheaper markets in the state in which produced, may be held in the ground, or blown into the air where legally permissible. Producers will thereby be deprived of substantial revenue, the states

will be deprived of substantial tax revenue and their efforts to conserve their natural resources will be impeded, and interstate consumers will be deprived of adequate supplies of gas. The economy of the entire nation will suffer.

In view of the fact that the decision of the Court of Appeals "is fundamental to the further conduct of the case" it should be reviewed now. *United States* v. *General Motors Corp.*, 323 U.S. 373, 377; *Land* v. *Dollar*, 330 U.S. 730, 734, footnote 2; *Larson* v. *Domestic and Foreign Corp.*, 337 U.S. 682, 685, footnote 3. The record has been fully developed, and a long drawn out rate hearing, involving as it will the formulation of new policies and procedures with respect to a new type of regulation, can add nothing in respect to the jurisdiction of the Commission.

The Interstate Compact Commission, in convention assembled, passed a resolution on December 5, 1953, calling attention of its 26 member states to the serious situation confronting the states as the result of the Court of Appeals decision in the Phillips case. See petition for rehearing filed in No. 281, this term, by the States of Texas, Oklahoma, and New Mexico, pages 3-4, where the resolution is quoted in full. This demonstrates the importance of the question presented and the necessity for a decision by this Court.

Respectfully submitted,

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Nos. 280, 281, 418

MAR 8 1954

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In the Supreme Court of the United States

October Term, 1953

No. 280

PHILLIPS PETROLEUM COMPANY, Petitioner,

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STATE OF WISCONSIN, et al., Respondents.

No. 281

STATE OF TEXAS, et al., Petitioners,

vs.

STATE OF WISCONSIN, et al., Respondents.

No. 418

FEDERAL POWER COMMISSION, Petitioner,

vs.

STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, et al., Respondents.

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In the
Supreme Court of the United States

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No 280
PHILLIPS PETROLEUM COMPANY,
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vs.

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JOINT BRIEF AMICI CURIAE

OPINIONS BELOW

The opinion of the Court of Appeals for the District of Columbia is reported in 205 F. 2d 706 (1953). The opinion and accompanying order of the Federal Power Commission is reported in 10 F. P. C. 246 (1951).

JURISDICTION

The jurisdiction of this Court is invoked under 52 Stat. 831 (1938), 15 U. S. C. §717r(b) (1946 ed.) and 28 U. S. C. §1254(1) (Supp. IV, 1946 ed.).

QUESTION PRESENTED

Is Phillips Petroleum Company a "natural gas company" within the meaning of the Natural Gas Act so that the Federal Power Commission has jurisdiction to fix the rates at which Phillips sells natural gas to five interstate pipeline companies for interstate transportation and resale for ultimate distribution to the public?

STATUTE INVOLVED

The pertinent provision of the Natural Gas Act (Act of June 21, 1938, c. 566, 52 Stat. 821, as amended, 15 U. S. C. 717 et seq., 1946 ed.) is as follows:

> "Section 1. (a) As disclosed in reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.
>
> "(b) The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local

distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas."

STATEMENT OF THE CASE

Briefly, the facts concerning the sales made by Phillips which raise the question here are these: Phillips owns and operates natural gas gathering systems and processing plants. Through progressively larger pipelines it gathers gas that it produces from its own wells and other gas that it buys, at common points in and near its processing plants (R. 1743). At these plants it processes the gas to make it salable or to recover extractable products or both (R. 1742-43). Phillips then moves the gas a short distance to meters located either just within or outside the plant enclosure. At these meters the gas is delivered by Phillips to five interstate pipeline companies in fulfillment of sales contracts previously made (R. 1691-1711, 1743-44). These pipeline companies then transport the gas in interstate commerce to the states where it is resold and ultimately distributed to the public (R. 1827-34).

INTEREST OF AMICI CURIAE

This brief is filed by the States of Minnesota, Iowa and Nebraska and the City of Minneapolis pursuant to Rule 27 (9) and (d) of the Rules of the United States Supreme Court.

These amici curiae are all vitally concerned and will be affected by the outcome of these cases. Northern Natural Gas Company, through its subsidiary, Independent Natural Gas Company, purchases gas from Phillips Petroleum Company, the sales of which are involved in these cases. (Northern Natural Gas Company will some-

times hereafter be referred to as "Northern" and Phillips Petroleum Company as "Phillips.")

The common interest and concern of Minnesota, Iowa and Nebraska and the City of Minneapolis is evidenced by the fact that natural gas is sold by Northern to direct consumers of Northern, and to utility companies in these three states who in turn distribute and sell the gas to ultimate consumers. In 1953 Northern sold approximately 240,000,000 MCF of gas in these three states. In 1954 it is estimated that Northern will sell approximately 270,000,000 MCF of gas in these three states.

It is estimated by Northern that out of its total gas purchases of approximately $40,000,000 in the year 1954, approximately $10,000,000 will be paid to Phillips for gas purchased by Northern to be distributed in the approximate volumes related below in the states of Minnesota, Iowa and Nebraska. See Exhibit 83, In the Matter of Northern Natural Gas Co., Federal Power Commission docket No. G-2217 (hereinafter cited as "F. P. C. docket No. G-2217.")

Exhibit 6 in F. P. C. docket No. G-2217 discloses that the total system-wide sales of Northern for the year 1954 are estimated at approximately 288,000,000 MCF.

Northern estimates that it or its wholly owned or controlled subsidiaries will purchase from Phillips for the year 1954 approximately 83,816,000 MCF. See Exhibits 17, 80 and 82 in F. P. C. docket No. G-2217.

These figures disclose that the purchases estimated to be made by Northern, or its subsidiaries, from Phillips will constitute approximately 29% of the total system-wide estimated sales of Northern for the year 1954.

The particular interest and concern of the sovereign states and the City of Minneapolis, who are here amici curiae, are as follows:

1. STATE OF MINNESOTA. The particular interest and concern of the State of Minnesota in the outcome of this case arises in part from the fact that the State of Minnesota purchases gas as a direct customer from Northern. It also purchases gas from distributing companies which buy all of their gas from Northern. Northern is the only interstate pipeline company serving natural gas in the State of Minnesota.

The total volume of gas bought by the State of Minnesota, in its sovereign capacity, for various State institutions, in the year 1953 amounted to 2,414,299 MCF, at a cost of $428,701.32.

During 1953 Northern sold approximately 105,000,000 MCF of natural gas in the State of Minnesota which would produce a total revenue to Northern at rates under the Federal Power Commission's opinion No. 233 and accompanying order of July 30, 1952, docket No. G-1881, 95 P. U. R. (N. S.) 143, of approximately 25 million dollars.

The total volume which Northern estimates it will sell in the State of Minnesota for the year 1954 is approximately 125,000,000 MCF. See Exhibit 6 in F. P. C. docket No. G-2217.

Approximately 43% of the total estimated sales of Northern for the year 1954 will be made in the State of Minnesota for ultimate public consumption.

2. CITY OF MINNEAPOLIS. The particular interest and concern of the City of Minneapolis in the outcome of this case is based on the fact that:

(1) the City of Minneapolis purchased gas, through its various governmental departments, from Minneapolis Gas Company during the year 1953 in the amount of 272,098 MCF at a cost of $134,517.08;

(2) Minneapolis Gas Company purchases all of its gas from Northern; and

(3) the Minneapolis Gas Company operates under a franchise granted by the City of Minneapolis, which involves the rates to be charged to the users of gas within the city. It is therefore necessary for the protection of the interests of the City of Minneapolis and citizen consumers of gas within the the city, that the City of Minneapolis express its concern and interest in the outcome of this case.

3. STATE OF IOWA. The State of Iowa and many of the citizens thereof are vitally concerned with the outcome of this case. Northern sells natural gas to approximately 75 communities in the State of Iowa, including the cities of Des Moines, Council Bluffs, Ames, Boone, Atlantic, Fort Dodge, Mason City and Sioux City. In 1953 the citizens of the State of Iowa purchased from Northern 57,656,000 MCF of natural gas.

Michigan-Wisconsin Natural Gas Company also sells natural gas to many Iowa communities, including Fort Madison, Fairfield, Burlington, Centerville, Mt. Pleasant and Keokuk. In 1953 this company sold approximately 2,500,000 MCF of natural gas in the State of Iowa.

Natural Gas Pipeline Company of America, while not directly concerned in the present litigation, will be directly affected with the decision rendered herein and that Company sells natural gas to many Iowa communities, including Davenport, Cedar Rapids and Clinton. In 1953 Natural Gas Pipeline Company sold 29,174,404 MCF in the State of Iowa.

It can readily be seen that the State of Iowa and its citizens have a direct and deep interest and concern in the present litigation.

4. STATE OF NEBRASKA. Not only the citizens of the State of Nebraska, but the state government itself, are consumers of large volumes of natural gas supplied by interstate pipeline companies. Therefore, the State, on behalf of itself and its citizens, is vitally concerned with the outcome of the instant case.

There are approximately 224 cities and towns in the state of Nebraska served natural gas from four interstate pipelines, namely, Northern Natural Gas Company, Kansas-Nebraska Natural Gas Company, Inc., Natural Gas Pipeline Company of America and North Central Gas Company. There are also twenty-three major activities or institutions owned and operated by the State of Nebraska which are so served natural gas.

During the year 1952, the interstate pipelines, operating in Nebraska, supplied approximately 70,000,000 MCF of natural gas to the consumers in the state, from which approximately $16,700,000 was paid to them.

In 1953 the State of Nebraska and its citizens purchased solely from Northern Natural Gas Company approximately 49,000,000 MCF of natural gas, costing approximately $13,720,000. It is estimated that in 1954 Northern will sell 61,000,000 MCF of natural gas to the State of Nebraska and its citizens. See Exhibit 6 in F. P. C. docket No. G-2217. This volume of natural gas is estimated to cost $18,300,000.

The State of Nebraska, during the year 1953, purchased for its own institutions a total of 1,839,700 MCF of natural gas from Northern and Kansas-Nebraska Natural Gas Company, at a cost to it of $532,138.13.

Included among the cities so served in Nebraska are Omaha, its largest city, and Lincoln, its capitol city. Representative of the other cities are Beatrice, Fremont, Hastings, Kearney, Norfolk, York, Scottsbluff, Grand Island, Nebraska City and North Platte.

From the foregoing, we believe it is apparant that the State of Nebraska and its citizens have a substantial interest in the instant case and are genuinely concerned in its decision.

SUMMARY OF ARGUMENT

The intent of Congress to regulate the sales in interstate commerce of natural gas for resale made by Phillips here is obvious from the plain and unambiguous language of §1 of the Natural Gas Act. It is clear from the language of §1(b) of the Act that the "production or gathering" proviso was intended to mean only the local activities of physical production or physical gathering which can be constitutionally regulated by a state. Therefore, the "production or gathering" proviso of §1(b) does not except the interstate sales made by Phillips here from jurisdiction of the Federal Power Commission. Any other construction would nullify the wholesome intent of Congress.

ARGUMENT

I. The sales made by Phillips to the five interstate pipeline companies are "sales in interstate commerce of natural gas for resale for ultimate public consumption" within the plain meaning of §1 of the Natural Gas Act, and therefore, are subject to the rate-making power of the Federal Power Commission.

In resolving the question presented in this case it is necessary to first determine whether the sales made by Phillips to the five interstate pipeline companies are within the purview of the Natural Gas Act. Only then is it material to consider whether the proviso in §1(b) of the Act regarding "production or gathering" excepts these sales from the jurisdiction of the Federal Power Commission. For if the sales involved here were not covered by the Act, they would not be subject to federal regulation and the proviso of §1(b) would have nothing on which to operate. An activity not within the Act could not be taken out of it.

The intent of Congress as to what activities are subject to federal regulation under the Natural Gas Act is clearly evidenced by the plain and unambiguous language of §1(b) of the Act. See *Interstate Natural Gas Co. v. Federal Power Commission,* 156 F. 2d 949, 951 (5th Cir. 1946), affirmed, 331 U. S. 682 (1947); *Peoples Natural Gas Co v. Federal Power Commission,* 127 F. 2d 153, 155 (D. C. Cir. 1942), cert. denied, 316 U. S. 700. Section 1(b) conveys an obvious and definite meaning; the Natural Gas Act shall apply to three distinct things:

(1) the transportation of natural gas in interstate commerce;

(2) its sale in interstate commerce for resale; and

(3) natural gas companies engaged in such transportation or sale.

See *Panhandle Eastern Pipe Line Co. v. Indiana Public Service Commission,* 332 U. S. 507, 516 (1947).

The reasons for federal regulation of the above interstate activities are set forth in the explicit language of §1(a) of the Act:

(1) "the business of transporting and selling gas for ultimate distribution to the public is affected with a public interest"; and

(2) "Federal regulation in matters relating to the transportation and sale thereof in interstate and foreign commerce is necessary in the public interest."

Thus, the coverage of the Natural Gas Act is succinctly stated in language which is so clear and definite that the intent of Congress is inescapable: the business of transporting and selling natural gas in interstate commerce for ultimate distribution to the public is affected with a public interest and therefore is made subject to federal regulation to protect that interest.

Are the sales here by Phillips within the affirmative coverage of the §1(b) of the Act? Phillips admits in its brief submitted to the Federal Power Commission (p. 38) and it is evident from the record that these sales are sales "in interstate commerce of natural gas for resale for ultimate public consumption." The Commission's finding to this effect is undisputed (R. 1712, 1740; 16 F. P. C. 246, 262, 276). The Commission also found that Phillips' operations here include the transportation of natural gas in interstate commerce within §1(b) of the

Act. This interstate transportation by Phillips will not be considered, however, because if the Commission has jurisdiction over the interstate sales made by Phillips here, the question of jurisdiction over the interstate transportation by Phillips will be unnecessary to the disposition of this case.

In its opinion (R. 1740, 10 F. P. C. at 270) the Commission said:

> "But for the exemption of production and gathering in §1(b), as already noted, Phillips would be a 'natural-gas company'. *It concedes and on the record here it could not deny, that the sales involved are sales 'in interstate commerce of natural gas for resale for ultimate public consumption' within §1(b)'s affirmative stated coverage of the act,* when considered independently of the exemption of production and gathering." (Italics added.)

The Commission's finding on this point was cited with approval by the Court of Appeals for the District of Columbia in its review of the jurisdictional question raised here in *State of Wisconsin v. Federal Power Commission,* 205 F. 2d 706, 710 (D. C. Cir. 1953):

> "The Commission finds that the sales involved here are sales in interstate commerce of natural gas for resale. That finding is not disputed."

That the sales of natural gas made by Phillips here are sales in interstate commerce for resale is also shown by the recent decision of this Court in the companion cases of *Michigan-Wisconsin Pipe Line Co. v. Calvert* and *Panhandle Eastern Pipe Line Co. v. Calvert,* Nos. 198-201, U S. Sup. Ct., Feb. 8, 1954 (22 U. S. Law Week 4119). The operations of the Michigan-Wisconsin Pipe Line Company which presented the question in that decision appear identical to the operations of Michigan-

Wisconsin here. In both instances Michigan-Wisconsin accepted delivery of natural gas from Phillips at the meter located just within the fence of the Sherman-Hansford processing plant in Texas. After the gas was taken into the Michigan-Wisconsin pipes, it moved, in a steady and continuous flow, across state lines to consumers outside of Texas. (Compare R. 1690-1711, 10 F. P. C. at 251-53, with *Michigan-Wisconsin Pipe Line Co. v. Calvert*, supra at 4116-17.)

The question presented in the Michigan-Wisconsin and Panhandle Eastern cases was (*Michigan-Wisconsin Pipe Line Co. v. Calvert*, supra at 4116):

> "* * * whether the Commerce Clause is infringed by a Texas tax on the occupation of 'gathering gas', measured by the entire volume of gas 'taken', as applied to an interstate natural gas pipeline company, where the taxable incidence is the taking of gas from the outlet of an independent gasoline plant within the State for the purpose of immediate interstate transmission."

In striking down the Texas occupational tax as an undue burden on interstate commerce which violated the Commerce Clause, this Court held that *the taking of gas by Michigan-Wisconsin was essentially a part of interstate commerce itself.*

Earlier decisions of this Court further support the finding by the Federal Power Commission that the sales by Phillips to the five interstate pipeline companies are sales in interstate commerce of natural gas for resale. See *Interstate Natural Gas Co. v. Federal Power Commission*, 331 U. S. 682, 688-90 (1947), Cf. *Jersey Central Power & Light Co. v. Federal Power Commission*, 319 U. S. 61, 69 (1943); *Public Utilities Commission v. Attelboro Steam & Electric Co.*, 273 U. S. 83, 86 (1927); *Mis-*

souri ex rel. Barrett v. Kansas Gas Co., 265 U. S. 298, 308 (1924).

II. The meaning of §1 of the Natural Gas Act is clear and does not, by the "production or gathering" proviso of §1(b), except the interstate sales made by Phillips in this case from jurisdiction of the Federal Power Commission. From the language used, the intent of congress is plainly evidenced that the "production or gathering" proviso does not reach the interstate sales here but is confined to local activities of physical production and physical gathering.

The purpose of Congress to regulate the sales by Phillips here is evident from a reading of the affirmative coverage provisions of §1(b) of the Act. Without more it is clear that these interstate sales would be subject to the rate-making jurisdiction of the Federal Power Commission. It is necessary, however, to consider whether the proviso of §1(b) regarding "production or gathering" affects the Commission's jurisdiction over these interstate sales by Phillips.

After affirmatively covering interstate transportation and sales of natural gas for ultimate public consumption, §1(b) then states that the Act shall not apply to four activities:

(1) "any other transportation or sale of natural gas" [other than those in interstate commerce];
(2) "the local distribution of natural gas";
(3) "the facilities used for such [local] distribution"; and
(4) "the production or gathering of natural gas."

Are these activities consistent with federal regulation of interstate transportation and sales of natural gas or

do they exempt some phases of such transportation and sales from jurisdiction of the Federal Power Commission?

The cardinal rule of statutory construction is to ascertain and declare the intention of the legislature and carry such intention into effect to the fullest degree. Where the will of the lawmaking body is declared in plain and unequivocal terms, a construction should not be adopted which would nullify or defeat this intention. It is evident from the clear and unambiguous language of §1 (a) and the affirmative coverage of §1(b) of the Act that Congress intended to subject the interstate sales made by Phillips in this case to federal regulation in the public interest. The specific question is thus raised: does the "production or gathering" proviso of §1(b) of the Act carve out from jurisdiction of the Federal Power Commission these interstate sales of natural gas made by Phillips to the five pipeline companies?

The general purposes of a proviso were stated in the decision of *Minis v. United States,* 15 Pet. 423, 445 (1841), where this Court said:

> "The office of a proviso, generally, is either to except something from the enacting clause, or, to qualify or restrain its generality, *or to exclude some possible ground of misinterpretation of it,* as extending to cases not intended by the Legislature to be brought within its purview." (Italics added.)

See *United States v. Morrow,* 266 U. S. 531, 534 (1925). It is a fundamental rule of statutory construction that a proviso should be strictly construed and held to include no case not clearly within the purpose, letter or express terms of the proviso. In *United States v. Dickson,* 15 Pet. 141, 165 (1841), this Court said:

> "Passing from these considerations to another, which necessarily brings under review the second

> point of the objection to the charge of the court below, we are led to the general rule of law which has always prevailed, and become consecrated almost as a maxim in the interpretation of statutes, that where the enacting clause is general in its language and objects, and a proviso is afterwards introduced, that proviso is construed strictly, and takes no case out of the enacting clause which does not fall fairly within its terms. *In short, a proviso carves special exceptions only out of the enacting clause; and those who set up any such exception, must establish it as being within the words as well as within the reason thereof.*" (Italics added.)

Cf. *United States v. McElvain*, 272 U. S. 633, 639 (1926); *Spokane & Inland Empire R. Co. v. United States*, 241 U. S. 344, 348 (1916); *Ryan v. Carter*, 93 U. S. 78, 83 (1876). See *Hartford Electric Light Co. v. Federal Power Commission*, 131 F. 2d 953, 962 (2nd Cir. 1942), cert. denied, 319 U. S. 741 (1943). Therefore, if it is possible, such construction of a proviso should be adopted as is consistent with, and not repugnant to, the purpose and intent of the Act.

When § 1 of the Natural Gas Act is read in its entirety, the intent of Congress, as to what shall be subject to federal regulation, is evident from the clear and unambiguous language employed. Section 1(a) states that interstate sales and interstate transportation of natural gas for ultimate distribution to the public must be subject to federal regulation in the public interest; section 1(b) affirmatively declares that the transportation of natural gas in interstate commerce and its sale in interstate commerce for resale are subject to the Act; the provisos in § 1(b) merely exclude any ground for misinterpreting the coverage of the Act by listing certain local activities which can be constitutionally regulated

by the states and are not to be confused with interstate sales for resale or interstate transportation of natural gas. The provisos are only by way of explanation as to what is covered by the Act.

Although the "production or gathering" proviso was not prefaced by the descriptive term "local," it is obvious from the plain language used and the tenor of the other provisos that Congress intended it to mean local physical production and local physical gathering. Also, the definite meaning of § 1 of the Act cannot be avoided by any technical semantic argument as to what is "production" or what is "gathering." The intent of Congress, as evidenced by the unambiguous language of the Act, to regulate the sales by Phillips here as sales "in interstate commerce of natural gas for resale," is paramount and must be given full effect.

The plain language of § 1 of the Natural Gas Act is corroborated by the purpose of the Act, as shown in its legislative history, and the prior decisions of this Court. The legislative history of the Act has been reviewed by this Court on numerous occasions so there is no need to repeat what has been said before, other than to briefly comment on it. See *Panhandle Eastern Pipe Line Co. v. Indiana Public Service Commission,* 332 U. S. 507, 520 (1947); *Interstate Natural Gas Co. v. Federal Power Commission,* 331 U. S. 682, 689-90 (1947); *Colorado Interstate Gas Co. v. Federal Power Commission,* 324 U. S. 581, 601 (1945); *Federal Power Commission v. Hope Natural Gas Co.,* 320 U. S. 591, 609-10 (1944); *Illinois Natural Gas Co. v. Central Illinois Public Service Commission,* 314 U. S. 498, 506 (1942). As stated in these opinions of this Court, the purpose of the Natural Gas Act was to provide for the regulation of natural gas companies transporting and selling natural gas in interstate

commerce. What was sought to be reached were the wholesale sales of natural gas in interstate commerce which were national in character and not subject to state regulation, even in the absence of Congressional action.

In *Illinois Natural Gas Co. v. Central Illinois Public Service Comm.*, supra at 506, this Court said:

> "An avowed purpose of the Natural Gas Act of June 21, 1938, was to afford, through the exercise of national power over interstate commerce, an agency for regulating the wholesale distribution to public service companies of natural gas moving interstate, which this Court had declared to be interstate commerce not subject to certain types of state regulation. * * * By its enactment Congress undertook to regulate a defined class of natural gas distribution without the necessity, where Congress has not acted, of drawing the precise line between state and federal power by the litigation of particular cases."

As this Court pointed out in *Federal Power Commission v. Hope Natural Gas Co.*, supra at 610, the Natural Gas Act was passed to protect the public interest:

> "The primary aim of this legislation was to protect consumers against exploitation at the hands of natural gas companies."

Because of the clear language of § 1 of the Natural Gas Act and its purpose, it is hardly conceivable that Congress intended that the "production or gathering" proviso of § 1(b) remove from jurisdiction of the Federal Power Commission the wholesale sales made by Phillips in interstate commerce to the five pipeline companies. The interstate sales involved in this case are one of the things specifically intended to be covered by the Act; therefore, it seems incongruous that Congress would have removed them from the purview of the Act by means of a proviso.

The identical jurisdictional question raised here was before this Court in *Interstate Natural Gas Co. v. Federal Power Commission,* 331 U. S. 682 (1947). That case involved the jurisdiction of the Federal Power Commission to regulate sales made in the field by Interstate Natural Gas Co. in Louisiana to three pipeline companies, each of which transported the gas so purchased to markets in states other than Louisiana. The Interstate case is not distinguishable from the instant situation merely because Interstate Natural Gas Company happened to be a natural gas company within § 2(6) of the Act on account of other operations conducted by it. The jurisdictional question in the Interstate case turned solely on the sales made in the field by Interstate and not by the status of the company's other operations. This Court held: (1) the sales made in the Louisiana gas fields to three pipeline companies for transportation to other states and resale were "sales in interstate commerce"; (2) the "production or gathering" proviso of § 1(b) of the Act did not remove these sales from the Commission's power of regulation. This Court concluded that regulation of the interstate sales involved was predominantly a matter of national concern because unreasonable charges exacted at this stage of the interstate movement would have to be covered by rates charged the ultimate consumers of the gas. The Natural Gas Act was designed to specifically avoid such situations. See *Peoples Natural Gas Co. v. Federal Power Commission,* 127 F. 2d 153, 155 (D. C. Cir. 1942), cert. denied, 316 U. S. 700.

Additional judicial support for the plain meaning of § 1 of the Act that the scope of gathering and production is confined to the local activities of physical gather-

ing and physical production and does not reach the interstate transportation or sale of natural gas is found in the recent cases of *Michigan-Wisconsin Pipe Line Co. v. Calvert* and *Panhandle Eastern Pipe Line Co. v. Calvert*, Nos. 198-201, U. S. Sup. Ct., Feb. 8, 1954 (22 U. S. Law Week 4119). In those cases the facts were almost identical to the facts here regarding the sales by Phillips to the five interstate pipeline companies. In holding that the Texas occupational tax on gathering gas was void because the incidence of the tax was on interstate commerce, this Court said (supra at 4118, 4119):

> "But the tax here is not levied on the capture, gathering or production of the gas, but rather on its taking into interstate commerce *after* production, gathering and processing.
>
> * * * * *
>
> "* * * But the processing, on which the tax is *not* imposed, was done by Phillips and took place prior to the taxable event of 'taking'. As for the interference of title passing, appellees readily admit this levy was designed to avoid taxing the sale; and we think that, as a basis for finding a separate local activity, the incidence must be a more substantial economic factor than the movement of the gas from a local outlet of one owner into the connecting interstate pipeline of another. Such an aspect of interstate transportation cannot be 'carved out from what is an entire or integral economic process,' Nippert v. Richmond, supra, at 423, by legislative whimsy and segregated as a basis for the tax. The separation must be realistic."

The local aspects of production and gathering, as distinguished from the national aspects of interstate transportation and sales of natural gas, were also recognized by this Court in *Federal Power Commission v. Hope Natural Gas Co.*, 320 U. S. 591, 612-13 (1944):

> "We do not mean to suggest that Congress was unmindful of the interests of the producing states in their natural gas supplies when it drafted the Natural Gas Act. *As we have said, the Act does not intrude on the domain traditionally reserved for control by state commissions;* and the Federal Power Commission was given no authority over 'the production or gathering of natural gas.' § 1(b). * * * Thus Congress was quite aware of the interests of the producing states in their natural gas supplies. *But it left the protection of those interests to measure other than the maintenance of high rates to private companies.* If the Commission is to be compelled to let the stockholders of natural gas companies have a feast so that the producing states may receive crumbs from that table, the present act must be redesigned. Such a project raises questions of policy which go beyond our province." (Italics added.)

The administrative decisions of the Federal Power Commission on the jurisdictional question in the instant case which are contrary to the clear and unambiguous language of the Natural Gas Act are entitled to no weight here. The plain meaning of the Act cannot be disregarded because the Commission, on occasion, has interpreted it narrowly. For a complete analysis of the course followed by the Commission, see the dissenting opinion of Commissioner Buchanan in the instant proceeding, 10 F. P. C. 246, 307-15.

CONCLUSION

The simple question here is whether Federal Power Commission should regulate the price of natural gas sold in the field and subsequently resold for ultimate public consumption. These amici curiae are gravely concerned over the steadily increasing cost of natural gas in the field in recent years.

Northern obtains its gas in Kansas, Texas, Oklahoma and New Mexico and resells practically all of such gas in the states of Nebraska, South Dakota, Iowa and Minnesota. As of December 31, 1953, there were approximately 685,000 ultimate consumers on Northern's system in that area. This includes domestic, commercial and industrial users. As of that date there were approximately 380,000 homes heated with natural gas in this area from the system of Northern alone. The increase in cost to the ultimate consumers in this area can be demonstrated by the records in the recent F. P. C. docket No. G-2217, a proceeding in which Northern filed for an increase in its wholesale rates (the fourth increase filed in the last four years). It is shown there that for twelve months ending June 30, 1953, Northern sold 226,000,000 MCF of natural gas in the area named. Northern estimates that in 1954 it will sell 279,000,000 MCF in the same area (Exhibit 7 in F. P. C. docket No. G-2217). This is an increase of *23.5%* in volume. For the 226,000,000 MCF of natural gas Northern paid $21,175,640 and for the 279,000,000 MCF it estimates it will pay $40,012,900 (Exhibit 16 in F. P. C. docket No. G-2217). This is an increase of *88%* in price. The Natural Gas Act was passed to protect the ultimate consumers from such apparently excessive charges.

We respectfully submit that the sales involved in the instant case are within the rate-fixing jurisdiction of the

Federal Power Commission. This Court should affirm the decision of the court below.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned, Assistant Attorney General for the State of Minnesota, hereby certifies that on the 6th day of March, 1954, he served a copy of the foregoing brief upon each of the parties of record in this proceeding by duly mailing a copy thereof by depositing the same in the United States mail, properly addressed and with postage prepaid, to counsel of record for each of said parties as follows:

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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1953

No. 280

PHILLIPS PETROLEUM COMPANY,
Petitioner,

vs.

STATE OF WISCONSIN, ET AL.,
Respondents.

No. 281

STATE OF TEXAS, ET AL.,
Petitioners,

vs.

STATE OF WISCONSIN, ET AL.,
Respondents.

No. 418

FEDERAL POWER COMMISSION,
Petitioner,

vs.

STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, ET AL.
Respondents.

BRIEF AMICI CURIAE OF THE STATES OF LOUISIANA, MISSISSIPPI, NORTH DAKOTA, WYOMING, AND THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS.

The States of Louisiana, Mississippi, North Dakota and Wyoming, by their respective Attorneys General, and the State Corporation Commission of the State of Kansas, the body charged with the responsibility of administering the oil and gas conservation laws of the State of Kansas, by its General Counsel, file this brief amici curiae pursuant

to Rule 27 of this Court, and urge the Court to reverse the judgment of the United States Court of Appeals for the District of Columbia Circuit and affirm the order of the Federal Power Commission.

The Purpose of This Brief

It is not the purpose of these States in this *amici curiae* brief to restate and reargue the many questions of statutory construction and administrative law which are involved in this proceeding. Those questions will be adequately discussed in the briefs of the respective parties. Nor is it the purpose of these States to champion the cause of one or more of the many parties to this case. What these States hope to accomplish by this brief is to keep before this Court certain facts which it is believed will be helpful to a thorough understanding of the question presented.

The particular facts in this case relate only to the sales of Phillips. But the activities of Phillips involved in this proceeding do not differ substantially from those of hundreds of other independent producers and gatherers of gas who operate in these States. In addition, although the sales here involved are sales by a gatherer, there is nothing in the language of the Act to distinguish between sales by a producer and sales by a gatherer. Regulation of a gatherer's sales may well mean that producers are to be regulated also. For that reason, this case will probably be a precedent for the regulation or freedom from regulation by the Commission of independent producers and gatherers of gas. From its inception, it has been regarded as a test case. If this Court's decision should be in favor of regulation, the effect would be far reaching and the consequences would be felt far removed from the particular facts of this case.

Each of these States has enacted legislation providing for the conservation of oil and gas and has established administrative agencies authorized to carry out and en-

force these laws, with the ultimate purpose being to bring about the greatest conservation of oil and gas for the benefit of the public as a whole. In each of these States, gas is one of the important natural resources and is an appreciable source of revenue to the State and its citizens.

These States are therefore vitally concerned that there be no outside influence which would tend to reduce the effectiveness of the conservation regulations of these States. The seriousness of the impact upon State regulation of production and gathering of the extension of federal authority to independent producers and gatherers is emphasized by the fact that the Federal Power Commission, *the very agency to which Congress entrusted the administration of the Act*, found that its regulation of independent producers and gatherers "would, by its very nature, be inconsistent or constitute a substantial interference with" State conservation regulations (90 PUR (NS) at 352). No amount of argument that regulation of independent producers and gatherers by the Commission will be of benefit to consumers will overcome the fact that the States' conservation powers will be harmed, and thus indirectly but none the less certainly harm the consumer. Thus it is essential that that conflict and interference not be treated as immaterial, as it was by the Court of Appeals (205 F. 2d at 711, note 11), but that it be thoroughly examined and considered in the light of the relationship between the producing states and the independent producer and gatherer.

Upon such examination, we believe this Court will reaffirm the jurisdictional test which it pronounced in *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, 690 (1947) and will hold that the Commission was correct in its decision in this case.[1]

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[1] In full recognition that the first ground of the Commission's decision was that Congress did not intend to regulate sales made by independent producers and gatherers, we elect to discuss only the second ground of the

I. The Production and Gathering of Gas Are Essentially Local in Character.

The function which the producer and gatherer performs is totally unlike the transmission and distribution phase of the industry. His economic position in particular is the exact opposite of the transporter, since instead of operating with a long-term source of supply and an assured market, he must compete with hundreds of other producers and gatherers and develop his supply in a risk-taking and financially hazardous industry. Nor can the independent producer and gatherer rest upon his laurels in the event he is fortunate enough to find production. To stay in business in this fast moving and exhaustible resource industry, he must be constantly looking for new sources of supply. All too often, what may appear to be a gusher at first is no more than a marginal well a few months or a few weeks later.

The producer and gatherer's activities are varied. There is much to be done besides simply turning a valve and waiting for payment for the gas. If the gas is casinghead gas, equipment must be installed and maintained to separate the oil from the gas. In any event, gathering systems must be laid and maintained. Gasoline plants must be built to process the gas to remove natural gasoline and liquefied petroleum gases. Residue lines must be provided to return gas to the leases for lease operation. The purchaser may require that the gas be dehydrated and, if the gas is sour (containing hydrogen sulphide), may require that it be treated. All this is in addition to the primary, always risky, job of finding production.

But these activities take place within a fairly limited area—within or close by the field of production. In all these

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Commission's decision, namely, conflict with States' powers. We do this, not because it is believed to be more tenable than the first, but because it particularly affects state interests, and the states are particularly qualified to discuss it.

activities the producer and gatherer of gas performs a function not unlike that of the ordinary manufacturer. He begins with a raw material which he has taken from the ground. He assembles it in a central location, where he divides it into two basic products, liquids, which may be the basis for the manufacture of many additional products, and residue gas. The residue gas is then sold—to a purchaser who comes to the plant and gets it. The purchaser may transport and sell the gas in interstate commerce, and thus make the sale by the producer and gatherer one in interstate commerce, but that legal technicality does not change the economic function. The sale is merely the culmination of all these activities, activities which are begun and completed within a local area.

Congress was fully aware of the fact that production and gathering are essentially local in character. This was clearly pointed out by the Solicitor of the Federal Power Commission during the hearings preceding the passage of the Act, when he described production and gathering as a function "purely local in character."[2] This Court has also recognized this fact and referred to production and gathering as one of the "excepted local matters." *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 508 (1949).

All of these local activities are subject to local regulation. These States have enacted and enforce comprehensive conservation programs covering the entire activities of the producer and gatherer. The Commission found that its regulation would conflict and interfere with this local regulation (90 PUR (NS) at 352). The brief of the States of Texas, Oklahoma and New Mexico show in detail how that conflict and interference will come about.

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[2] *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U.S. 498, 505, note 7.

The point which we wish to emphasize here is that the effect of the Commission's regulation will bear much more heavily upon the independent producers and gatherers than upon the transmission companies. This is so because the producer and gatherer's economic life depends entirely and completely upon the price which he receives for his gas. The impact of regulation upon his sole income is direct. In contrast, the great bulk of the transmission companies' earnings, even as to those companies which produce some of their own gas, are derived from the revenues which they receive for their service of transporting the gas for long distances. The independent producer and gatherer has no such cushion to absorb the effects of regulation. He has only a product, not a service, to sell. His function is completed, and his total income received, when he sells his gas in the field. Since he has no other source of income, any reduction in the price which he receives for his product will make it that much more difficult for him to carry out and conform to the conservation programs of the states.

This Court recognized in the *Interstate* case that such might be the effect upon field sales even by transmission companies, and that in such event the Commission's jurisdiction should not attach. We submit that freedom from regulation by the Commission is all the more necessary in the case of the independent producer and gatherer.

II. In Regulating Independent Producers and Gatherers of Gas, the Commission Would Be Faced With the Complicated Interrelationship Between the Oil Industry and the Gas Industry.

No one has yet suggested that the Commission has the power to regulate the interstate sale of oil. Presumably, the Commission, if it were required to regulate independent producers and gatherers of gas, would make every effort to confine its regulation to the regulation of gas. But the complicated interrelationship between the oil industry and

the gas industry means that the Commission would face a difficult, if not insurmountable, problem. Despite continual effort on the part of the Commission, there is little likelihood that the Commission's regulation of independent producers and gatherers of gas would not have an adverse effect upon the oil industry.

In 1950, about one third of the gross production of natural gas came from oil wells.[3] But that proportion may be expected to increase substantially as drilling goes deeper and more and more so-called gas condensate fields[4] are discovered. The facts in this case show that six of the ten gasoline plants from which Phillips' sales are made are processing all or part casinghead gas, gas that is produced in association with oil. (90 PUR (NS) at 330-336). But even where the gas comes from a well producing gas only, it is not disassociated from the oil industry, since it may well have been discovered during a search for oil and the gas itself contains many valuable products which may be recovered in liquid form through processing.

Oil and gas are usually associated in the reservoir. Wherever oil is found, some gas, in greater or lesser quantities, is found with it. For many years, the principal use of this gas was in the lifting of oil, and it is still essential for that purpose in both primary and secondary recovery operations. But in recent years the conservation programs of the producing states have required greater utilization and marketing of this casinghead gas, which had previously been

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[3] *The Outlook for Energy Sources,* Vol. III, Resources For Freedom, pp. 16-17, U.S. Government Printing Office, 1952.

[4] Gas condensate and gas distillate fields are those in which the wells have many of the characteristics of a gas well, but condensing at the wellhead are large volumes of a light colored, high-gravity liquid which must be handled and further refined like oil. For this reason, this type of well is something of a hybrid between an oil well and a well producing gas only. Because such fields are found only at great depths, the gas is always produced under high pressures, with shut-in pressures in excess of 2000 pounds not uncommon.

flared after it had served its purpose of lifting the oil. This means that every producer of oil is also a producer of gas; if he is in the oil business, he is or soon will be in the gas business. Moreover, most gas fields are discovered in the process of looking for oil. If the Commission should regulate a producer and gatherer of gas, it in all likelihood would be regulating a person who, as a part of the same operations, is also a producer and gatherer of oil.

To the oil producer, the gas which he produces with his oil is valuable for two purposes: without it he very likely could not produce oil at all, or at least only at much greater expense; the price which he receives for his gas is in effect an additional return for his oil. It has been said that an attractive price for gas is an added incentive for the exploration for oil, since the money received for the gas is in effect a per-barrel increase in the price of oil.[5]

To the Commission, the result is the same as if it were trying to regulate the meat packer's price of pork chops, but with the rest of the products dependent upon a competitive market. The specific cost of producing a thousand feet of gas can no more be physically separated from the cost of producing a barrel of oil than the cost of the pork chops can be physically separated from the cost of the rest of the meat. It is all produced together, as a result of a single operation. The only possible method of separation is through some accounting allocation, upon the validity of which opinions will differ and which can only be arbitrary, if not capricious. No one, so far as we know, has yet devised a functional method for allocating between gas and oil the cost of a dry hole which did not produce either.

The purpose of any such allocation would be to charge a greater or less cost to oil than to gas, depending upon what-

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[5] *The Outlook For Energy Sources*, Vol. III, Resources For Freedom, p. 21, U.S. Government Printing Office, 1952.

ever method of allocation the Commission might choose. In this connection, it seems almost unquestionable that the natural inclination of the Commission, whether intentional or not, would be to charge a greater portion to the oil, for the benefit of gas consumers. The result would be a reduction in the price of gas and an increase in the cost of oil. Since the conservation of oil is subject to the same relationship to price as the conservation of gas, the producing States' problems of the conservation of oil would be further complicated and interfered with, at least to the extent that any such allocation charged more of the total cost to oil than what some omnipotent authority might say is the actual cost of producing oil. In actuality, as time progressed, it would be almost a certainty that oil would have to stand the bulk of the cost of exploring for gas, if not the cost of production.

The Commission recognized this problem when it first considered this question of its jurisdiction. It said then that its conclusion that it has no jurisdiction to regulate independent producers and gatherers of gas was "reinforced" by this complicated interrelationship between oil and gas. *In the Matter of Columbian Fuel Corporation*, 2 FPC 200, 207 (1940). The same considerations apply today. Not only would the problem of regulation be greatly magnified, but the resulting conflict with State conservation powers would be multiplied and intensified.

Conclusion

Regulation by the Commission of independent producers and gatherers of gas would be the regulation of what is essentially a local activity, although the sales may in legal concept be interstate commerce. Because it is a local activity subject to comprehensive local regulation in the interest of conservation, the additional imposition of federal regulation upon the culmination of this activity would seri-

ously interfere and conflict with that local regulation. The conflict and interference with local regulation would be further intensified by the close interrelationship between the oil industry and the gas industry, since it would be impossible for the Commission to regulate independent producers and gatherers of gas without in some degree adversely affecting the production of oil, thus adding to the States' problems of oil conservation. For these reasons, we urge the Court to reverse the decision of the United States Court of Appeals for the District of Columbia Circuit and affirm the order of the Commission.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1953

Nos. 280, 281, 418

PHILLIPS PETROLEUM COMPANY; STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; AND STATE OF NEW MEXICO AND OIL CONSERVATION COMMISSION OF NEW MEXICO; FEDERAL POWER COMMISSION, *Petitioners,*

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; AND THE FEDERAL POWER COMMISSION, *Respondents.*

BRIEF AMICI CURIAE OF THE MEMBER MUNICIPALITIES OF THE NATIONAL INSTITUTE OF MUNICIPAL LAW OFFICERS

I.

OPINIONS BELOW

The opinions of the Court of Appeals for the District of Columbia Circuit (R. V. 1840-1856) are reported at 205 F. (2d) 706. The opinions of the Federal Power Commission (R. V. 1682-1822) are reported at 90 P.U.R. (NS) 325 and 10 F.P.C. 246.

JURISDICTION

The judgment of the Court of Appeals was entered May 22, 1953 (R. V. 1858). The petition for a writ of certiorari was filed on August 20, 1953 and denied by this Court on November 30, 1953. A petition for rehearing was filed on December 14, 1953. On January 18, 1954 this Court granted the petition for rehearing, vacated the order denying certiorari, and granted the petition for certiorari.

The jurisdiction of this Court rests upon 28 U. S. C. 1254(1).

QUESTION PRESENTED

Where Congress confers jurisdiction over *all* sales of natural gas in interstate commerce for resale, does subsequent language providing that the Natural Gas Act does not apply "to production or gathering of natural gas" nullify that jurisdiction with respect to all sales in interstate commerce for resale *except* those by pipeline companies?

STATUTE INVOLVED

Section 1(b) of the Natural Gas Act (Act of June 21, 1938, 52 Stat. 821; as amended 56 Stat. 83 and 61 Stat. 459, 15 U. S. C. 717 et seq.) reads as follows:

> "The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas."

INTEREST OF AMICI CURIAE

The National Institute of Municipal Law Officers (NIMLO) is an organization composed of over 800 municipalities, located in each of the 48 states, the District of

Columbia, and in the territories of Hawaii, Alaska and Puerto Rico. This brief is filed under rule 27(9)(d) of this Court. The members of NIMLO are political subdivisions of States and this brief is sponsored by their authorized law officers.

NIMLO member cities acting as spokesmen for consumers of gas residing within their corporate limits were among the sponsors of the Natural Gas Act of 1938 when it was adopted.[1] Since then these member cities have participated in innumerable rate and certificate proceedings before the Federal Power Commission (FPC) as representatives of consumers living within their corporate limits.[2] NIMLO members have participated in both FPC and Congressional consideration of the constant controversy over the issue involved in this case.[3]

This Court in considering the reasons why Congress enacted the Natural Gas Act has held that:

> "The primary aim of this legislation was to protect consumers against exploitation at the hands of natural gas companies."[4]

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[1] Hearings before Committee on Interstate and Foreign Commerce, House of Rep., 75th Cong., 1st Sess. on H. R. 4008, March 24-25, 1937, pp. 46, 58, 59.

[2] As to municipal power to represent consumers, see *Wright* v. *Central Kentucky Natural Gas Co.*, 297 U.S. 537, and McIntire, *Municipalities as Legal Representatives of Consumer Interests* (1938) 4 LEGAL NOTES ON LOCAL GOVERNMENT 3.

[3] While this issue has been debated almost from the adoption of the Act in 1938 (cf. *Columbian Fuel Corp.*, 2 F.P.C. 200, 1940; *Interstate Natural Gas Co.*, 3 F.P.C. 416, 1943), FPC's consideration insofar as Phillips is concerned was initiated by Detroit in a motion filed Oct. 11, 1946 in *Michigan-Wisconsin Pipeline Co.*, 67 P.U.R. (NS) 427 and formally initiated by the FPC on Oct. 28, 1948. (FPC Opinion at R. V. 1686). The Moore-Rizley Bills, S. 734 and H. R. 4051, 80th Cong., 1st Sess.; Kerr Bill, S. 1498, 81st Cong., 1st Sess., and Lyle Bill, H. R. 3285, 82nd Cong., 1st Sess., each designed to exempt Phillips and similar sellers of natural gas in interstate commerce from FPC jurisdiction, none of which became law, have all been vigorously opposed by NIMLO members.

[4] *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U.S. 591, 610.

The protection was provided by conferring jurisdiction upon FPC to prescribe just and reasonable rates for sales of natural gas in interstate commerce. FPC in this case has held that its jurisdiction does not extend to sales in interstate commerce by Phillips Petroleum Company, the largest seller of natural gas in interstate commerce in the Nation. This brief urges that the Court of Appeals was correct in reversing FPC's decision.

In the *Interstate*[5] case this Court recognized the necessity of controlling the price at which natural gas enters interstate lines. This Court said:

> "Unreasonable charges exacted at this stage of the interstate movement become perpetuated in large part in fixed items of costs which must be covered by rates charged subsequent purchasers of gas, including the ultimate consumer. It was to avoid such situations that the Natural Gas Act was passed."[6]

Here FPC has recreated the very situation the Congress sought to avoid. All Petitioners and *amici curiae* supporting Phillips seem to assume or concede that absence of FPC control means higher charges by Phillips. NIMLO members, as representatives of consumers, herein urge that FPC be ordered to carry out its statutory mandate to protect consumers from unjust and unreasonable charges by Phillips and similar sellers of natural gas in interstate commerce for resale.

STATEMENT OF FACTS

Phillips sells more natural gas in interstate commerce to pipelines than any other purveyor of this commodity (R. II. 739). It owns 25 processing plants in Texas, Oklahoma and New Mexico and has a part interest in 10 other such plants. Natural gas moves into these processing plants through its

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[5] *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U.S. 682.

[6] *Ibid.*, pp. 692-693.

4,380 miles of pipeline located in Arkansas, Kansas, Oklahoma, Texas and New Mexico. (R. V. 1689).

In 1949 Phillips owned, or controlled by contract, 15.22 trillion cubic feet of proved gas reserves (R. V. 1689). In 1950 it sold 504 billion cubic feet of natural gas for $26,000,000 (R. I. 153).[7]

Phillips is a large wholesaler of natural gas in interstate commerce. About 50 per cent of the gas it sells in interstate commerce is purchased by it from other producers (R. III. 855).

Phillips sells natural gas in interstate commerce to 5 pipeline companies (R. V. 1690). These pipeline companies transport and resell this natural gas to local distribution companies in 14 states, i.e., Arizona, California, Oklahoma, Kansas, Nebraska, Iowa, Minnesota, Missouri, Illinois, Indiana, Michigan, Ohio, South Dakota, and Wisconsin. Phillips also sells to the pipeline serving the province of Ontario, Canada (R. V. 1690, 1827-1834). Forty-nine cities are served with gas sold by Phillips (Ex. I, A. R. III). As noted by this Court in *Michigan-Wisconsin Pipeline Co.* v. *Calvert*, 347 U.S. 157, 162, note 3, Phillips supplies a market of about 12,000,000 people in its sales to the two pipelines there involved.

The sales for resale in interstate commerce by Phillips which are involved in this case take place at meters located beyond the processing plants (R. V. 1687).

Phillips admits that its sales to the 5 pipeline companies are sales in interstate commerce for resale (R. V. 1712-1740). Phillips contends that its sales in interstate commerce are a part of its production or gathering and that the Act is therefore inapplicable to its sales.

Petitioners also contend that Phillips' sales in interstate commerce are exempt from FPC jurisdiction because of possible conflict with state conservation regulations. There

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[7] Since 1950 Phillips has continued to grow rapidly. The figures comparing its 1938 and 1952 sales and income are set forth *infra*, p. 31.

was much testimony about possible conflict between FPC regulations prescribing just and reasonable rates for sales of natural gas in interstate commerce and state conservation efforts, but not one witness testified that any actual conflict had taken place. It was admitted that in the many instances where FPC has already prescribed just and reasonable rates for pipeline companies which produce, gather, and process natural gas, no conflict with state conservation efforts had arisen (R. II. 478-485, 505-508, 576-587).

SUMMARY OF ARGUMENT

I

Prior to the passage of the Natural Gas Act of 1938 regulation of transportation and sales of natural gas in interstate commerce was nonexistent. This Court had held that the States were forbidden by the Constitution to carry out such regulation. And the Federal Government had not as yet acted. Because of this regulatory hiatus natural gas sellers in interstate commerce fixed their own prices and the consumer paid any price or rate these sellers exacted.

After extensive hearings on this problem the Congress enacted the Natural Gas Act of 1938. Its primary aim was to protect the consumer from exorbitant prices exacted by sellers of natural gas. The method chosen was to confer jurisdiction upon the FPC to regulate and fix just and reasonable charges for sales in interstate commerce—thus closing the hiatus.

II

Phillips is the largest seller of natural gas in interstate commerce to pipelines in the Nation. It is a producer, gatherer, transporter, and wholesaler, having 17.89 trillion cubic feet of proven gas reserves in 1952. It purchases as a wholesaler about 50 per cent of the gas it sells to pipelines from other producers. With 4,380 miles of gas lines

in Arkansas, Kansas, Oklahoma, Texas and New Mexico, and 35 processing plants, Phillips is a gigantic empire in itself. It sells gas after termination of producing or gathering to 5 pipelines serving 14 states and Canada—including some 49 municipalities.

Phillips admits that it makes sales for resale in interstate commerce and that it transports natural gas in interstate commerce. Both of these activities bring Phillips directly within the jurisdictional language of the Natural Gas Act.

Congress in considering the problem of consumer protection discovered by hearings that a "gap" in rate regulation existed wherein the states were constitutionally prohibited from acting and no Federal regulation existed. This "gap" was defined by this court in *Public Utilities Commission* v. *Attleboro Steam and Electric Co.*, 273 U. S. 83, and *Missouri* v. *Kansas Natural Gas Co.*, 265 U. S. 298, to include sales for resale in interstate commerce and transmission in interstate commerce. In that area the States are prohibited from regulating. Unless Federal regulation is adopted none exists. And that is the area where Phillips' sales and transporting here involved take place.

The statutory language that "The provisions of this Act shall apply to the transportation of natural gas in interstate commerce" and "to the sale in interstate commerce of natural gas for resale for ultimate public consumption" are clear and unambiguous. Under these circumstances the rule of *Ex parte Collett*, 337 U. S. 55, denying resort to legislative history applies.

But if the actual legislative history of the Act is resorted to, one finds that it demonstrates that Congress did indeed know what it said—and said what it meant to say. The Report to the House on the bill (H. R. 6586, 75th Cong.), which became the Act, states that Congress intended by the language it used ". . . to fill the gap in regulation that

now exists by reason of the lack of authority of the State commissions." H. Rept. 709, 75th Cong., 1st Sess., p. 3. This Court on almost identical facts to those involved herein has held the jurisdiction of the Act does extend to and does close that gap. *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, 689. Under the statutory language, the legislative history and this decision of this Court, Phillips is clearly within the jurisdiction of the Act.

IV

Faced with the clear and unambiguous language of the Act, direct proof in the quoted Committee report that Congress knew what it was doing and why, and the *Interstate* case, *supra*, Petitioners seek to find an escape route for Phillips in the inapplicability of the Act to "production or gathering of natural gas."

Petitioners say that in the industry there are three segments, independent producers and gatherers, pipelines and local distributors. They then say that Phillips is an "independent producer and gatherer" and based upon their "definition" they conclude that even though Phillips does sell in interstate commerce for resale, and does transport in interstate commerce, the fact that Phillips is also a producer and gatherer and wholesaler removes it from FPC regulation over these sales and this transporting. Again Petitioners in reality seek reversal of the *Interstate* decision, *supra*, in thus trying to rewrite clear language of the Act. There this Court, in disposing of a similar argument, said: "In denying the Federal Power Commission jurisdiction to regulate the production or gathering of natural gas, it was not the purpose of the Congress to free companies such as Petitioner from effective public control. The purpose of the restriction was, rather, to preserve to the states powers of regulation in areas in which the states are constitutionally competent to act. . . " (331 U. S. 682, 690).

Since the States may not constitutionally regulate sales in interstate commerce for resale, it is clear that the purpose of Congress in adopting the Natural Gas Act was to confer jurisdiction upon FPC over these *sales* transactions. As the Congressional report also said "The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the states may not act." H. Rept. 709, S. Rept. 1162, 75th Cong., 1st Sess. p. 3. The definition of production or gathering urged by Petitioners seeks to rewrite the Act's explicit language so it will mean that "this field" was only *partly* occupied. Obviously, that is not what Congress intended.

Section 1(b)'s exemption of "production or gathering of natural gas" is completely divorced from its grant of jurisdiction over sales in interstate commerce. The identical House and Senate Reports on the Bill had this to say about the inapplicability of the Act to local distribution and to "production or gathering of natural gas": "The quoted words [of exemption] are not actually necessary, as the matters specified therein could not be said fairly to be covered by the language affirmatively stating the jurisdiction of the Commission." H. Rept. 709, S. Rept. 1162, *supra*, p. 7. Indeed, any other construction would negative Section 1(b) in its entirety.

When Phillips leaves the realm of producing or gathering of natural gas and becomes a seller, as in the instant case, it is subject to FPC regulation, not because it also produced or gathered natural gas but because it sold natural gas in interstate commerce for resale. It is the selling in interstate commerce which Congress regulated, not groups of persons as Petitioners contend.

To protect the consumer, Congress conferred jurisdiction on the FPC to regulate sales in interstate commerce for resale. It did not say to regulate some sales, or most sales, or only sales by pipelines. It said sales for resale in interstate commerce and thus Phillips, a seller who admittedly sells for resale in interstate commerce, is subject to this regulation.

Thus the attempt by Petitioners to confine the reach of the Act to sales by pipelines finds no support in the language of the Act, in its legislative history, or in reason. True, Congress could have confined the Act to sales for resale by pipelines, yet it did not. It could have exempted sales in interstate commerce during, or as a part of, the physical act of production or gathering, yet it did not. To write in such a provision now would scuttle explicit language and deny the whole legislative purpose of the Act.

Petitioners further urge upon the Court alleged legislative history which this Court considered and rejected in *Interstate* (331 U. S. 682). There as here great reliance is placed upon the "DeVane" testimony that under an earlier bill (H. R. 11662, 74th Cong.) in which jurisdiction was provided *only* over "transportation in high pressure mains in interstate commerce," sales during gathering were not covered. Petitioners never bridge the gap between that Bill and the Bill Congress adopted (H. R. 6586, 75th Cong.), which covers all transportation and all sales for resale in interstate commerce—a very different bill.

Significantly, no one testified on H. R. 6586 in the same vein as did Mr. De Vane on H. R. 11662 of the earlier Congress. Nor could they have done so because of the broadened jurisdiction in the later bill. And Senator Wheeler who was in charge in the Senate of the Bill adopted by the Congress made it crystal clear in his explanation thereof that *producers* selling in interstate commerce "would have to sell it [gas] at the price fixed by the Commission." 81 Cong. Rec. 9314.

Clearly the real legislative history of the Bill adopted by the Congress furnishes no basis for the claims of Petitioners. Congress, in referring to the inapplicability of the Act to "production or gathering of natural gas," did not intend to create a "regulation free" area such as that for which Petitioners contend.

V.

In the *Interstate* case, *supra*, this Court upheld the distinction expressly drawn therein by FPC in its opinion (3 F.P.C. 416, 420-421) between *production and gathering* and *sales in interstate commerce*. This Court has also said that " . . . transportation and sale do not include production or gathering," *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U. S. 581, 598. Yet, Petitioners seek by opinion testimony to dispute these findings. The ultimate conclusion Petitioners seek from Phillips' witnesses on this point is that when Congress adopted the Act, it did not intend to cover Phillips' sales because its sales in interstate commerce are in reality part of its producing and gathering.

Since opinions of authors of legislation expressed 5 or more years after an Act is adopted may not be accepted as showing legislative intent (*Ramspeck* v. *Federal Trial Examiners Conference*, 345 U. S. 128, 143, note 9), it is not believed that these self-serving assertions of Phillips' witnesses uttered 12 years after the adoption of the Act are acceptable to show legislative intent. Especially is this true where the Act's provisions are clear and unambiguous and this Court has heretofore found that Congress meant what it said.

VI.

Leaving legislative history, Petitioners seek support for their contentions in prior decisions of the FPC which they argue have consistently upheld their position. But there one finds "The Federal Power Commission has wobbled all over the face of the earth with respect to this problem." Senator O'Mahoney, 96 Cong. Rec. 4171. The Commission's members have at times been torn by dissension and differences of opinion and FPC acknowledges this "uncertainty" in its brief, pp. 71-72. *Columbian Fuel Corp.*, 2 F.P.C. 200 (1940), cited by Petitioner, is an example; but reference to the fact that the Commission expressly stated that it was not assuming jurisdiction *at that time* and would

await further developments is omitted. And the FPC's opinion in the *Interstate* case, as quoted page 23, *infra*, expressly rejects the basic contention of Petitioner by distinguishing between sales in interstate commerce and production and gathering.

This Court has recognized this FPC uncertainty on this issue. *Federal Power Commission* v. *Panhandle Eastern Pipeline Co.*, 337 U. S. 498, 516-517. But neither this division of opinion, nor a failure to exercise expressly conferred jurisdiction, can override the mandate of Congress as expressed in the Act.

The only means by which FPC could be divested of jurisdiction is by Congressional action. Attempts at this have failed. (See Moore-Rizley Bills, S. 734 and H. R. 4051, 80th Cong., 1st Sess.; Kerr Bill, S. 1498, 81st Cong., 1st Sess.; and Lyle Bill, H. R. 3285, 82d Cong., 1st Sess.)

VII.

Much stress has been placed by Petitioners upon State conservation of gas and infringement upon it by FPC control. But the Act itself is not cited. Petitioners' reliance is on non-decisive statements in the *Interstate* case, *supra*, and *Cities Service Gas Co.* v. *Peerless Oil and Gas Co.*, 340 U. S. 179. The question of conflict was, however, dispensed with by the Court in both cases, and rejected in *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591, 607-609, and *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U. S. 581, 600, 603.

In *Interstate*, conflict was alluded to only as regards regulation by the States of local sales, a situation not present here. In *Cities Service* the Court expressly stated that there was a limit beyond which the States could not go in burdening interstate commerce; if that limit is overreached, the States must withdraw. The FPC recognizes this when it states on p. 86 of its brief that if the Federal statute clearly authorized the exercise of FPC power, such a conflict would not bar the Federal jurisdiction.

No one has shown any evil or conflict in FPC's acting as umpire between producer and consumer to fix fair prices. FPC is required to act to protect consumers from unconscionable prices by fixing just and reasonable rates on sales in interstate commerce for resale. Oklahoma fixes *minimum* rates on sales by Phillips to protect landowners, producers, and royalty owners. No State does fix, or can constitutionally fix rates for sales in interstate commerce to protect consumers.

The only evidence of purported conflict in the instant case is supplied by members of State regulatory bodies in producing States as answers to questions based on hypothetical situations. No situation has yet arisen wherein such a conflict has been shown, and at present conflict is mere conjecture.

VIII.

The natural gas industry has increased tremendously in size since the passage of the Act. Pipelines have now been constructed to many major cities not served in 1938. An estimated 40,000,000 users have been made dependent on natural gas. If the protective jurisdiction which the Congress bestowed upon FPC is destroyed, these dependent users will have to pay whatever price the sellers in interstate commerce for resale exact—either that or have their great investment in burner equipment destroyed.

A sharp rise in field prices of natural gas (which prices are passed directly on to the ultimate user at his burner tip) is already in evidence. Escalator clauses (providing price increases not based upon increased costs) and "favored nation" clauses (providing for payment to a seller under contract of the highest price paid later to any seller in his particular field) carry contract prices ever upward. With no FPC regulation, the sky will be the limit as supply is far behind demand.

It has been conservatively estimated that if FPC jurisdiction is held to be lacking, users will be faced with price increases amounting to $200,000,000 annually. In the light

of this, Petitioner Phillips' bold assertion in its brief (p. 85) that there is no need for regulation to protect users is indeed astounding. Congress never intended such a situation to exist.

ARGUMENT.

I. The Natural Gas Act of 1938 Was Passed to Protect Consumers Against Exploitation by Filling the Gap in Regulation Established by Decisions of This Court Holding That States Are Constitutionally Prohibited From Regulating Sales of Natural Gas in Interstate Commerce.

The Congress enacted the Natural Gas Act of 1938 to protect consumers from unjust and unreasonable charges by sellers of natural gas in interstate commerce where the gas is sold for resale to consumers. The evidence presented to Congressional committees indicated that consumers were being charged exorbitant prices by these sellers. This Court found in the *Hope* case as quoted *supra,* page 3, that the Act was intended "to protect consumers against exploitation at the hands of natural gas companies." And it was pointed out that under *Missouri* v. *Kansas Natural Gas Co.,* 265 U. S. 298 and *Public Utilities Commission* v. *Attleboro Steam and Electric Co.,* 273 U. S. 83, the States are constitutionally unable to protect consumers by regulating these sales in interstate commerce. The identical reports of the Senate and House Committees on the Bill (H. R. 6586) which became the Natural Gas Act cite these cases and then state:

> "The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the States may not Act."[8]

These reports also state:

> "Your Committee believes that this legislation is highly desirable to fill the gap in regulation that now

[8] S. Rept. 1162, 75th Cong., 1st Sess. and H. Rept. 709, 75th Cong., 1st Sess. p. 3.

exists by reason of the lack of authority of the State commissions.'"[9]

In *United States* v. *Public Utility Commission of California*, 345 U. S. 295, at page 311, this Court said:

> "Especially in litigation arising under the Gas Act has this Court expressed the view that the limitations established on Commission jurisdiction therein were designed to coordinate precisely with those constitutionally imposed on the states."

It is, therefore, clearly established that the Congress intended to fill this "gap" in natural gas regulation. The area where the consumer needed protection was clearly and precisely defined as that area which the States are constitutionally prohibited from regulating, i.e., sales for resale in interstate commerce. This Court has so held in *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U .S. 682, 689-690; *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U. S. 581, 599-600; and *Panhandle Eastern Pipe Line Co.* v. *Michigan Public Service Commission*, 341 U. S. 324, 334-335. In these cases this Court has also held that the language used by the Congress is broad enough to close the "gap."

In the *Interstate* case, *supra*, upon facts almost identical with those of the instant case, this Court said (pp. 689-690):

> "In a series of decisions announced prior to the passage of the Act, this Court had held that, although Congress had not acted, the regulation of wholesale rates of gas and electrical energy moving in interstate commerce is beyond the constitutional powers of the States."

and further, on sales in interstate commerce in Louisiana for resale in interstate commerce this Court there said, (pp. 682-693):

> "It cannot be doubted that their regulation is predominantly a matter of national, as contrasted to local

[9] *Ibid.*, p. 3.

> concern. All the gas sold in these transactions is destined for consumption in States other than Louisiana. Unreasonable charges exacted at this stage of the interstate movement become perpetuated in large part in fixed items of costs which must be covered by rates charged subsequent purchasers of the gas, including the ultimate consumer. It was to avoid such situations that the Natural Gas Act was passed."

Phillips admits that its sales are sales in interstate commerce (R. V. 1712, 1740). The brief recitation of facts, *supra*, pages 4-6, shows that Phillips operates on a tremendous scale. It produces and gathers for its 35 processing plants in 5 different states and supplies pipelines serving 14 states and Canada. About 50% of its gas is bought at wholesale, from others, and resold to pipelines. It now has 17.89 trillion cubic feet of proven national gas resources (*infra*, p. 31).

Applying the principles established by the legislative history, as interpreted by this Court, it is clear that the sales by Phillips involved here are precisely the sales in interstate commerce for which the Congress intended to provide FPC regulation.

If FPC regulation under the Natural Gas Act does not reach Phillips, its sales in interstate commerce for resale are free of all regulation. For as demonstrated above the States are constitutionally prohibited from regulating these sales. The Congress could not have used broader, or more clear, or more definite language than it did use.

Petitioners seek to recreate a "twilight zone" wherein Phillips' charges for sales in interstate commerce cannot be regulated either by FPC or by the States.[9a] They say that in spite of the broad jurisdictional coverage of the Act of sales in interstate commerce for resale, the subsequent language making the Act inapplicable to "production and gathering of natural gas" serves to open the very gap the

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[9a] See testimony of Mr. Don Emery, General Counsel for Phillips on Moore-Rizley Bill in support of a twilight zone, Hearings on H. R. 4051, *supra* note 3, at pp. 67-74.

Congress said it had closed. This Court has held in the *Interstate* and other cases, *supra,* that the Congress accomplished its aim. No basis for reversal of those decisions is here advanced by Petitioners.

In their identical Reports, the House and Senate Committees[10] said that the language making the Act inapplicable to local distribution of natural gas and "to the production or gathering of natural gas" is:

> ". . . not actually necessary, as matters specified therein could not be said fairly to be covered by the language affirmatively stating the jurisdiction of the Commission."

If this language was "not actually necessary" it was certainly not intended to destroy any of the jurisdiction over sales in interstate commerce for resale. Yet that is what Petitioners contend. In the *Interstate* case, *supra,* this Court held most emphatically (331 U. S. at 690):

> "In denying the Federal Power Commission jurisdiction to regulate the production and gathering of natural gas, it was not the purpose of Congress to free companies such as petitioner from effective public control. The purpose was, rather, to preserve in the States powers of regulation in areas in which the States are constitutionally competent to act."

The recent decision in *Michigan-Wisconsin Pipe Line Co.* v. *Calvert,* 337 U. S. 157, holds that a part of the sales here involved—sales not unlike all sales here involved—are beyond the Constitutional reach of the States. Under these circumstances it is clear that the Congress intended the jurisdictional coverage to reach all sales in interstate commerce for resale. Congress explicitly said there was no clash between such sales and the regulatory efforts of the States with respect to production and gathering. The Reports of the Congressional Committees, the language of the Act, and the prior decisions of this Court cited above

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[10] *Supra,* note 8, p. 7.

are unanimous in clearly placing Phillips' sales in interstate commerce for resale under the jurisdictional reach of the Act. Petitioners' claims of exemption are without merit.

Since the Act reaches all sales in interstate commerce for resale by Phillips—without regard to where they take place —and since there is no conflict between such jurisdictional provisions and the exemption of "production or gathering of natural gas", the legal conclusion of a majority of the FPC that Phillips' sales in interstate commerce for resale are exempt from regulation as a part of production and gathering is erroneous, and was properly reversed by the Court of Appeals. Further, under the undisputed facts, these sales take place after physical production[11] and gathering have ended with the final co-mingling of the gas in the processing plants. (FPC brief, p. 8, Phillips brief, p. 7). Delivery to the pipelines takes place beyond the processing plants, (R. V. 16 [illegible]-1711), and after all production and gathering have ended. *Michigan-Wisconsin Pipe Line Co.* v. *Calvert*, 347 U. S. 157, 167.

II. The Proper Legislative History of the Act Furnishes No Basis for Overriding the Jurisdiction Over Phillips Which Is Conferred by Clear and Unambiguous Language.

Petitioners seek to overcome the effect of the Committee reports[12] on the Bill (H. R. 6586, 75th Cong.) which became the Act, and the decisions of this Court already cited herein, by directing attention chiefly to the testimony of the then Solicitor of FPC on a different bill introduced in an earlier Congress (H. R. 11662, 74th Cong.). Petitioners rely

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[11] In the *Interstate* case, *supra* (331 U. S. 682), at p. 690 this Court emphasized this physical aspect when it said:

> "Clearly, among the powers thus reserved to the States is the power to regulate the *physical* production and gathering of natural gas in the interests of conservation or any other consideration of legitimate local concern." (Italics supplied.)

[12] H. Rept. 709, 75th Cong., 1st Sess., S. Rept. 1162, 75th Cong., 1st Sess.

on the rather ambiguous statements of Mr. DeVane that sales during gathering were not then covered by H. R. 11662. That earlier Bill proposed FPC jurisdiction only over "transportation of natural gas in high-pressure mains in interstate commerce." It did *not* cover sales in interstate commerce for resale, as *did* H. R. 6586, the Bill actually adopted by the Congress.

Interestingly enough no witness gave testimony on H. R. 6586 similar to Mr. DeVane's testimony on H. R. 11662. That silence is most significant.

But any ambiguity created by Mr. DeVane's statements was removed and any contrary inference overriden, at a later date by Senator Wheeler, Chairman of the Committee in charge of the Bill (H. R. 6586) when he expressed the view (83 Cong. Rec. 2422) that:

> "The courts have held that sales for resale, or so called *wholesale* sales in interstate commerce, are not subject to State regulations.
>
> "*Neither the sending nor receiving State may regulate the wholesale rates.* The consumption of natural gas in the States is secured for the most part through interstate transmission, and the cost thereof is a very material element in determining the price the local consumers must pay for their gas." (Italics supplied)

And at page 2424, the Senator said:

> "Federal jurisdiction plus the jurisdiction of the several States should be so utilized and coordinated as to produce effective regulation and the termination of existing abuses to the end that there should be no unregulated twilight zone. Otherwise our system fails in a very crucial situation."

In the debates on the bill Senator Connally asked Senator Wheeler (81st Cong., Rec. 9314):

> "If a man should produce gas in my state and ship it in interstate commerce, then he would have to sell it at the price fixed by the Commission?"

Senator Wheeler replied:

> "Exactly; at the wholesale price fixed by the Commission."

Here the jurisdictional problem relates to sales in interstate commerce for resale by Phillips. These are in fact "wholesale" sales as described by Senator Wheeler. And as stated above, Phillips also acts as a "wholesaler" for gas purchased from other companies—50% of its sales being of gas purchased from other producers or gatherers.

In any event the legislative history is immaterial in the light of the pronouncements of this Court in such cases as *Ex parte Collett,* 337 U. S. 55. The Court stated at page 61:

> "... there is no need to refer to the legislative history where the statutory language is clear. 'The plain words and meaning of a statute cannot be overcome by a legislative history which, through strained processes of deduction from events of wholly ambiguous significance, may furnish dubious bases for inference in every direction.'"

Petitioners seek to make a sale in interstate commerce for resale mean a sale by pipeline only, but that is not what Congress said. If Congress did not mean to include *all* sales in interstate commerce for resale, it would have and could have so stated quite simply. If it had meant only *some* of the sales in that category, it would have said that. If it wanted to control only sales by pipelines, or only sales made at the city gate, as Petitioners contend, it would have said that. If selling in interstate commerce means the same as gathering, then all pipelines owning their own supply of gas escape regulation. No producing State controls price at the inception of the pipeline for the benefit of the consumers. Congress obviously knew this. Petitioners say that Congress denied consumers such protection—yet Congress did not do so in the express language of the Act.

III. Petitioners' Attempt to Limit by Opinion Testimony the Constitutional Power of the Congress Over Sales by Phillips in Interstate Commerce Has No Basis in Law or Fact.

Petitioners seek to develop the statutory words "production or gathering of natural gas" by opinion testimony into the industry-coined phrase "independent producers and gathers"—meaning all non-pipeline producers and gatherers (*Phillips brief P. 18-27, FPC Brief 9-17*). By this testimony which includes sales in interstate commerce as a part of production or gathering, Phillips would be freed of regulation. Yet that is not what the Congress said or had in mind. Congress had in mind producing or gathering by everyone, including Phillips and all pipelines. Congress also had in mind sales in interstate commerce by everyone, including Phillips and all pipelines. This has been shown by the preceding Sections of this brief. There is no ambiguity as to what Congress meant by the words "production or gathering of natural gas". That too has already been demonstrated in the preceding parts of this brief. Under these circumstances resort to opinion testimony of others to establish legislative intent is unwarranted. *Ex parte Collett*, 337, U. S. 55, 61.

Yet, for page after page Petitioners (FPC brief 9-17, Phillips brief 18-27, 67-73) contend that opinions expressed by Phillips employees to the effect that all of Phillips' activities, including its sales in interstate commerce, are part of "production or gathering", establish Phillips exemption from regulation under the Act. Petitioners thus seek to take from the reach of the statute all sales by Phillips in interstate commerce and limit the coverage of the Act to resale in interstate commerce by pipelines only. Such novel use of opinion testimony—self-serving and totally lacking in factual basis as it is, and based on hypothetical propositions—cannot becloud the real issues before this Court. In *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U. S. 581, this Court has already said (p. 598): ". . . transportation and sale do not include production or gathering".

The issue before the Court is not what Phillips employees want to say in their testimony in 1951 as their opinion of what Congress said in 1938. The issue is what Congress said in the Act. There can be no dispute but that Congress chose words to cover those phases of the sale of natural gas in interstate commerce which are in issue here, i.e., sales in interstate commerce for resale which the States could not constitutionally reach. Witnesses in lawsuits based upon the Act cannot now increase the powers of the States or lessen the powers conferred by Congress upon FPC by the express language of the Act. What Congress said is crystal clear from the words of the Act. And while it is totally unnecessary to resort to legislative history, when one does analyze the legislative history as has been done herein (pp. 18-20), such analysis reveals that Congress did indeed know what it said. Thus, when weighed against the language of the Act, the legislative history of the Act, and the decisions of this Court on the correct interpretation of the Act, this opinion testimony is revealed to be totally lacking in basis or substance.[13] In *Central Greyhound Lines* v. *Mealey*, 334 U.S. 653, 659-660, the Court rejected the "fiction" of "Calling interstate commerce local commerce in order to sustain its local control."

This testimony of Phillips is in interesting contrast to the testimony given at the Hearings on the Moore-Rizley and Kerr Bills where the so-called "independent producers and gatherers" asked exemption because they were within the scope of the Act.[14]

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[13] This Court has rejected the opinion of the Author of an Act, as to its scope when expressed 5 years after the Act became law. *Ramspeck* v. *Federal Trial Examiners Conference*, 345 U. S. 128, 143, N. 9.

[14] Hearing on H. R. 4051 before Sub-committee of the Senate Committee on Interstate and Foreign Commerce, 80th Cong., 2d Sess. (1948), pp. 67-74, 357, 358. Hearings on S. 1498 before a Sub-committee of the Senate Committee on Interstate and Foreign Commerce, 81st Cong., 1st Sess. (1949), pp. 35, 79, 80, 81, 84, 105, 107, 109, 149, 153, 154, 158, 160, 388, 412, 422, 427, 434, 442-444, 453 and 454.

It has already been shown herein that Congress intended to fill the "gap" in regulation of sales of natural gas in interstate commerce by exercising the full constitutional power of the Federal government. It is not believed that these sales of Phillips in interstate commerce which Congress has the constitutional power to regulate can be withdrawn from the reach of that power by opinions of witnesses that such sales are "production or gathering of natural gas". Sales in interstate commerce and production or gathering are entirely different actions. As FPC said in *Interstate Natural Gas Co.*, 3 F. P. C. 416 (1943), affirmed 331 U. S. 682:

> "When the distinction between production and gathering of natural gas, and the sale of such gas in interstate commerce is kept in mind, effect is given the Congressional objective."

Congress made no distinction between sellers of natural gas. Congress made no distinction based upon where sales in interstate commerce take place. It provided for regulation of all sales in interstate commerce by all sellers. That objective is clear and the language carrying out the objective is clear and unambiguous. No amount of evidence on what the industry considers to be encompassed within "independent producer and gatherer" can override that language.

IV. FPC Opinion Has Fluctuated With Changes of Membership and Mind and Its Administrative Interpretations Provide No Consistent Construction Favoring Regulatory Freedom for Phillips.

FPC in its brief (pp. 65-73) contends that FPC has uniformly interpreted the Act to exclude sales in interstate commerce for resale such as those involved in this case. But at pages 71-72 it then concedes:

> "... there has been some uncertainty as to the application of the 'gathering' exception to the situation here involved."

And in fact FPC opinion on this important matter has wavered according to its changing membership, and according to changes of mind by individual FPC Commissioners over the years. The dissent of Commissioner Buchanan adequately sets forth the facts on this subject. He states the facts as to the inconsistencies of the Commission on this issue since the passage of the Natural Gas Act of 1938 and the membership changes and changes of mind which have played such a prominent part therein. (R. V. 1774-85, 10 F. P. C. 246, 307-315).

In *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498 at pages 516-517, this Court recognized that there was

> "... uncertainty of opinion in the Commission as to the reach of the act toward sales by independent producers and gatherers of Natural Gas Companies for transportation in interstate commerce."

In the *Columbian Fuel Corp. case*, 2 F. P. C. 200, upon which Petitioners strongly rely, the FPC held that it was not the intent of Congress to regulate companies whose only sales of natural gas in interstate commerce are made as an incident to, and immediately upon completion of such persons' production and gathering of said natural gas if these persons are not otherwise subject to the jurisdiction of the Commission. *It further stated,* however, that if experience revealed that through affiliation, field agreement or dominant position in a field, an unreasonable price might be maintained, the Commission will decide whether it can assume jurisdiction (p. 208).

Immediately after this case *Peoples Natural Gas Co. et al.* v. *Federal Power Commission*, 127 F. (2d) 153 (App. D. C. 1942) arose. Peoples relied on the *Columbian* case and asserted that the Federal Power Commission lacked jurisdiction. The United States Court of Appeals for the District of Columbia Circuit, in ignoring the *Columbian* case stated at P. 155:

"We cannot disregard the plain language of the Act because the Commission—*at one time* interpreted it narrowly." (Italics supplied)

Subsequent to the *Peoples* case the Commission began regulating natural gas sales by the Interstate Natural Gas Co. to three interstate pipeline companies, one of which was affiliated with Interstate.

The FPC submitted a report on April 10, 1947, to the Committee holding hearings on the Rizley Bill. It stated its opposition to the Bill at that time, feeling that the outcome of the *Interstate Natural Gas Co.* case, which was pending decision, should be awaited. (Hearings before the Committee on Interstate and Foreign Commerce, House of Representatives, 80th Cong., 1st Sess., on H. R. 2185, H. R. 2235, H. R. 2292, H. R. 2569 and H. R. 2956, p. 10.)

On June 16, 1947 this Court held Interstate was subject to regulation by the FPC. (*Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682).

On August 7, 1947 the four member Commission issued Order No. 139, from which Commissioner Draper dissented, and which in effect repudiated the *Interstate* decision. It construed Sec. 1(b) as including arm's length sales of natural gas by independent producers and gatherers made during the course or upon completion of processing and gathering.

In April of 1949 the Commission appeared at the Hearings before the Interstate and Foreign Commerce Committee of the House on the Lyle-Harris Bills, H. R. 79 and 1758 and opposed the bill on the ground that it would deprive the Commission of jurisdiction that the Supreme Court stated it possessed. A like position was taken in the Hearings before a Subcommittee of the Senate Committee on Interstate and Foreign Commerce on the Kerr Bill, S. 1498, 80th Cong., 1st Sess., p. 500.[15]

[15] The majority consisted of Commissioners Buchanan, Draper and Olds; Commissioners Smith and Wimberly submitted a minority report. (R. V. 1810).

Finally, on July 11, 1950 the Commission issued Order No. 154 which rescinded Order No. 139 stating it was inconsistent with the requirements of the Natural Gas Act.

The *Phillips* decision restored the Commission to its 1940 position. Since 1940 its position has been vacillating. However, it has never definitely stated that it did not have jurisdiction, *per se.* Even Order No. 139 never went that far. The Commission has merely declined to exercise what was delegated to it by the Congress.

Thus, the jurisdiction which Congress delegated to the Federal Power Commission over transactions that Phillips and like concerns engage in has always been present. Misinterpretation or wilful abeyance of its use is immaterial. And the argument of FPC that its interpretation is "entitled to great weight" (Brief, p. 66) is lacking in merit, where, as here FPC has fluctuated back and forth on the issue before the Court.

Assuming, *arguendo,* that the Commission did desire divestment of its jurisdiction, its mere statement alone would be insufficient to attain this result. Congress has conferred it, Congress must abrogate it. In the Moore-Rizley, Kerr and Lyle Bills Congress has been offered the opportunity but declined to act. It is present and it can and must be utilized, if the consumer is to be afforded any protection at all.

V. The States Can Exercise No Control for Consumer Protection Over Maximum Prices Charged for Sales in Interstate Commerce by Sellers Such as Phillips and FPC Protection of Consumers Will Not Conflict With State Conservation Programs.

Petitioners' contention that FPC regulation will conflict with State conservation efforts has been formerly proferred and expressly rejected by this Court, *Federal Power Commission* v. *Hope Natural Gas Co.,* 320 U. S. 591, 607-9, 613-14; *Colorado Interstate Gas Co.* v. *Federal Power Commission,* 324 U. S. 581, 600, 603.

In considering West Virginia's contentions regarding conflict with conservation this Court stated in the *Hope* case at pages 613-614:

> "Thus Congress was quite aware of the interests of the producing states in their natural gas supplies. But it left the protection of those interests to measures other than the maintenance of high rates to private companies. If the Commission is to be compelled to let the stockholders of natural gas companies have a feast so that the producing states may receive crumbs from that table, the present Act must be redesigned. Such a project raises questions of policy which go beyond our province."

The premise of conflict is absolutely unwarranted. Oklahoma sets minimum wellhead prices on all gas taken from one field and specifically directs producers in this field, which also operate interstate gas pipeline systems, to take gas from another producer in the same field at such price. These operations have been upheld by this Court in *Cities Service Gas Co.* v. *Peerless Oil and Gas Company,* 340 U. S. 179 and a companion case, *Phillips Petroleum Company* v. *State of Oklahoma,* 340 U. S. 190.

In the opinions regarding these two cases, however, the Court was at pains to point out that there is a limit to which the States may go and that this limit was not reached in the cases under consideration. The Court states in the *Cities Service* case at p. 786:

> "The only requirements consistently recognized have been that the regulation not discriminate against or place an embargo on interstate commerce, that it safeguard an obvious state interest and that the local interest at stake outweigh whatever national interest there might be in the prevention of state restrictions."

Petitioners' reliance upon conflict with State conservation (through control of production) to nullify FPC regulation of sales to pipelines in interstate commerce is not placed upon the provisions of the Natural Gas Act. Such

reliance flows from a statement by this Court in the *Interstate* case, *supra,* where the Court merely noted that the claim of interference with State conservation was without merit. The only real difference between *Interstate* and the instant case is that the majority of the FPC use the statement in *Interstate* to limit the reach of the statute to sales by pipelines; no such limitation appears in the Act. To stretch non-decisive language of this Court to the point of abrogating statutory language is untenable.

No State controls maximum prices charged for natural gas for the purpose of protecting consumers from price gouging by sellers who have a monopoly on supply to certain pipelines, and thus to fixed markets. Therefore, no conflict exists between State and Federal jurisdictions. Congress acted to protect consumers from price gouging by suppliers and sellers enjoying a monopoly in certain markets in interstate commerce. The States act to protect producers, landowners and royalty holders.

Should the FPC not be allowed to exercise the jurisdiction conferred upon it by Congress, and assuming that the States do attempt to regulate Phillips' prices on sales, is anyone naive enough to think that Phillips and like concerns will not immediately seek the protection afforded by the interstate commerce clause and thus avoid any regulation at all? The States could not, as stated *supra,* circumvent the basic constitutional premise that they may not burden interstate commerce. This is the precise reason for giving the FPC jurisdiction. No evidence has been or can be shown to exhibit any real conflict. This argument should be summarily rejected.

VI. Claim of Phillips That Consumers Need No Protection Is Without Basis in Fact—Since 1938 Natural Gas Sellers Have Increased Their Sales to Such Immense Proportions in a Monopolistic Market That the Concern Shown by Congress in Regulating Them Has Been Fully Justified.

Phillips makes the astonishing claim that consumers need no protection against excessive prices charged by sellers in interstate commerce like itself (Brief pp. 85-94). While this

claim is one of policy and properly addressed to the Congress rather than this Court, it requires some response because Petitioners seek to use it to prove lack of Congressional intent to cover Phillips under the jurisdictional provisions of the Act.

The brief *amici curiae* of the states of Louisiana, Mississippi, North Dakota, Wyoming, and Kansas, filed in support of Phillips, states that this Court recognized in the *Interstate* case that FPC jurisdiction over these sales in interstate commerce means a lower price to the consumer (p. 6). And the position is taken that such regulation is unwise and impractical in this "risk-taking and financially hazardous industry" (p. 4).

The States of Texas, Oklahoma and New Mexico in their brief as Petitioners take the position that ". . . any argument that the states have no power to regulate the particular sales involved is wholly beside the point. It is sufficient that rate regulation of sales by the Commission (FPC) will interfere with the exercise of any legitimate conservation power of the States." In essence both Phillips and these producing States argue for no control over prices charged by sellers of natural gas in interstate commerce, contending that protection of consumers is outweighed by the needs of the sellers. Phillips goes so far as to contend that "fear" of FPC rate regulation would lead sellers to refuse to sell their gas to any one subject to FPC regulation (Brief, p. 82). Totally unexplained is what they will do with the gas if they do not sell it. Also unexplained is why sellers "fear" FPC regulation which really requires only that they be paid just and reasonable prices.

Neither Phillips nor these producing States, in reciting the burdens and difficulties of sellers of natural gas, cite the tax exemption benefits now enjoyed by all producers of gas of "27½ per centum of the gross income from the property during the taxable year." Internal Revenue code, (26 U.S.C. Sec. 114(b)(3). But those benefits have as much to do with the statutory interpretation problem here in-

volved as their other arguments. It is certainly a major part of the overall oil and gas picture to which Petitioners devote much of their argument.

The experience under the Act and the rapid expansion of the industry as reviewed in this section of this brief confirms completely that the Congress was fully justified in concluding that regulation of sales of natural gas in interstate commerce was necessary. In spite of Petitioners' contrary contentions, such regulation could not be effective if it did not cover sales in interstate commerce *to* as well as *by* pipelines.

1. Initial experience was one of decreasing rates.

After adoption of the Natural Gas Act of 1938, the FPC moved immediately to exercise the jurisdiction delegated to it by Congress and began regulating rates charged for natural gas sold in interstate commerce for resale.

Between the years of 1938 and 1946, there was an average total reduction in rates of $157,000,000 in states such as Illinois, Kansas, Nebraska, Ohio, Pennsylvania, New Mexico, Wyoming, Kentucky, Missouri, Michigan, Indiana and the communities of Chicago, Baton Rouge, Cleveland, Toledo, Denver, Cheyenne, Detroit, Ann Arbor, Ft. Wayne and Dallas, to mention a few (Hearings before Committee on Interstate and Foreign Commerce, House of Representatives, 80th Cong., 1st Sess. on H. R. 2185, 2235, 2292, 2956, 2569, at p. 463). This shows the protection that the Act afforded consumers in enabling them to obtain a necessary product at a reasonable figure.

2. Prices have crept ever upward as market demands have exceeded gas supply.

As more and more pipelines were completed and the market demand grew for natural gas, the prices demanded by sellers such as Phillips began to creep upward and upward. Demand far outstrips supply and sellers such as Phillips enjoy a commanding position because of this fact.

Phillips itself has grown tremendously. Its sales of natural gas have increased from 228,107,329,000 cu. ft. in 1938 to 560,000,000,000 cu. ft. in 1952. In 1938 its gross operating income and net income was $111,899,261 and $10,232,354, respectively. This is in marked contrast to its gross operating income of $720,527,888 and a net income of $75,284,261 in 1952. Phillips' proved reserves of natural gas were 17.89 trillion cubic feet in 1952. (Moody's Manual of Investments, 1939, p. 1942; SEC file 1-720, May 1, 1953). Phillips is the largest seller of natural gas to pipeline companies in the Country. Evidence of this is found in the hearings on the Kerr Bill (S. 1498), wherein the FPC's report showed that 600 independent producers sold over 1000 billion cu. ft. of natural gas to 32 pipeline companies, but two-thirds was sold by the 25 largest vendors and 47.6 per cent or nearly one-half was sold by 10 of these 600. Of these 10, Phillips is the number one seller by a wide margin. (Hearings, before a Subcommittee of the Senate Committee on Foreign and Interstate Commerce on S. 1498, 81st Cong., p. 8 and p. 18, table 14. Also R. II-5746).

And the increase in the size of the entire industry sheds a great light on the enormity of the problem in issue as to its effect on Consumers.

The number of natural gas utility customers has increased from approximately 6,500,00 in 1938 to 18,500,000 in 1952. This number is further increased to an estimated 40,000,000 when the families of these customers are taken into consideration. (*Thirty-third Annual Report of the Federal Power Commission* (1953) p. 18, Graph 1.) From these figures it can be seen that there has been an approximate 300 per cent increase in users served who are dependent upon these gas companies for heat, cooking facilities and the other services provided and needed.

Sales of natural gas have increased from a total of 1,200 billion cubic feet in 1938 to a total of 4,800 billion cubic feet in 1952. (*Thirty-third Annual Report of the Federal Power Commission,* (1953), p. 19) The miles of

utility gas mains have increased from 184,900 in 1938 to 367,900 in 1952. This includes field, gathering, transmission and distribution but excludes service pipe. (*Gas Facts,* published by the American Gas Association, 1952, p. 62, Table 39). These facts demonstrate the fabulous increase in size which the industry has experienced.

The national significance and the impact which an enterprise of this magnitude has upon the country, its people and its economy is, to say the least, tremendous.

That this growth is ever on the increase is evidenced by natural gas utility revenues. Excluding revenues from sales, for resale, this amount has increased from $406,352,000 in 1938 to $1,960,789,000 in 1952, five times the 1938 figure! (*Gas Facts,* published by the American Gas Association, 1952, p. 132, Table 95.)

It is respectfully submitted that these statistics are more compelling than any words could possibly be. This industry has become gigantic in scope. It should, in the interests of the States and cities, and their inhabitants, be subject to the closest scrutiny and regulation to insure that equal justice is afforded both gas sellers and users. When the Natural Gas Act was passed in 1938 this was the prime consideration, the need is even greater now and this consideration cannot be too strongly stressed. From an embryo industry it has emerged into one which has the capabilities of placing millions of users at its mercy if it is not controlled to insure fair play. Sellers of gas like Phillips, who want to enjoy the benefits of sales in a monopoly market in interstate commerce, cannot justly complain that Congress set up FPC to act as umpire to insure fair treatment of both sellers and users. Phillips seeks the Utopia of enjoying a monopoly market with no control over what it charges.

3. An estimated 40,000,000 users will be at the mercy of uncontrolled prices by Phillips and similar sellers of gas in interstate commerce should Petitioners prevail herein.

These estimated 40,000,000[14] users of natural gas, 1 out of 4 persons in the United States, deserve, and as a matter of right should be granted, the protection that the Congress delegated to the FPC to administer. As evidenced from the statistics, *supra,* the situation today is not one of competition but of substantial monopoly. Phillips wants the monopoly market it now enjoys in interstate commerce but does not want any control over the maximum price it charges in that market.

Though, as noted, *supra,* the FPC initially brought about many decreases in rates, the inflationary trend in the late 40's necessitated higher rates. During the year 1953, gas rate increase applications in the amount of $212,131,800 were under consideration by the FPC. Of this total, $32,515,600 was allowed to become effective, $11,103,800 was disallowed, and $5,657,600 was withdrawn by the companies. The remaining $162,844,800 was suspended pending final disposition by FPC and $138,416,000 was effective under bond, subject to refund. (*Thirty-third Annual Report of the Federal Power Commission,* 1953, p. 101).

Users definitely are on an unequal footing with the natural gas octupi, whose pipelines now extend like tentacles into the most remote communities of the United States. If FPC does not protect them under the Act no one can.

Local distribution companies have instituted, city by city, a changeover in equipment as natural gas became available. Users are absolutely dependent upon suppliers such as Phillips. Stoves, heating units and hot water heaters have been converted to this product at an expense of millions of dollars—in fact it is believed that the investment in this consumer equipment far exceeds the value of

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[14] In *Michigan-Wisconsin Pipe Line Co.* v. *Calvert,* 347 U.S. 157, 163 this Court noted that a consumer market of 12,000,000 persons is supplied by gas Phillips sells to the pipelines there involved.

all other investments in the natural gas industry. Natural gas is now the only product that can be utilized by this equipment. The user or local distribution company cannot change products or be supplied by another seller if the particular company upon whom he is dependent increases the price. These pipelines cannot be moved like a garden hose. They are wedded to the source of supply and must buy gas from the pipeline which serves them and pay the price exacted by sellers such as Phillips. Unless FPC has jurisdiction to control the fairness of that price, no control exists.

Should the gasoline for his automobile prove unsatisfactory, or should his cigarettes disagree with him, there is the simple expedient open to the user of changing brands. But the only choice open to the person who is serviced by a natural gas company, which furnishes the wherewithal to enjoy a warm home, or a hot meal, is to endure whatever the particular inconvenience is or to use another fuel.

This, patently, is no choice at all. Once a person has installed costly gas burning equipment with which to heat and cook, then the cost of changing to another fuel, measured in terms of time, inconvenience and most important of all, money, is absolutely prohibitive. Congress was fully aware of these facts when it provided FPC regulation of all sales in interstate commerce for resale. To distort what Congress actually said so as to limit it to sales *by* pipelines, eliminating sales *to* pipelines in interstate commerce would be to ignore the obvious evils which that language was designed to meet.

4. The rapidly increasing prices for natural gas are directly attributable to a tremendous rise in field prices, "escalator" clauses (which are built-in inflation), and "favored nation" clauses.

With demand far outrunning supply, the field price situation is one fraught with inherent dangers to the consumer. Under the procedure presently in effect, the Federal Power Commission allows pipline companies under its jurisdic-

tion to pass on to consumers the full price paid by them to so-called independent sellers of gas in the field. The sharp rise in rate increase applications, *supra*, is evidence of this.

"Escalator" clauses are embodied in most existing contracts between the pipeline companies and suppliers such as Phillips. These clauses provide that base prices shall be revised upward to take certain tax levies into consideration, or when the cost of living index reaches a certain point and IF the Federal Power Commission grants the pipeline company a higher rate, the price of the supplier to the pipeline company is also increased, according to a specified formula. See, for example, the *Michigan-Wisconsin* rate cases, FPC Docket Nos. G-1678 and G-1996.

An example of the astounding rise in prices is afforded by Exhibit 54, R. III. 1053-1068, in the *Phillips* case. The outside sales of natural gas by Phillips in the year 1950 were at an average price of 4.16¢ per mcf. Recently the FPC in *Gulf Interstate Gas Co.*, opinion No. 251, Docket No. G-2058 issued May 20, 1953, stated that the initial price of 20¢ per mcf for gas from the Erath Field in Louisiana represented "the highest cost for purchased gas in the southwestern gas producing areas of the United States that had been submitted to us for consideration in connection with any proposed pipeline project, such as that of Gulf Interstate."

According to an article in the Wall Street Journal, field prices of natural gas are two to three times higher than right after World War II. Compared to pre-war days, gas coming out of the ground is up as much as five times in value and a constant increase has been predicted. In 1940 gas generally sold at one to two cents for a thousand cubic feet. Even in 1945 most producers received only two to three cents—a lucky handful got four to five cents. In many cases, the wellhead price is now eight to ten cents or more. A leading supplier believes new contract field prices will shoot up to 20 cents in Texas and 25 cents in Louisiana within five years.

A large number of rate boost applications, based largely on rising field prices, are pending before the FPC, State and local regulatory authorities. One pipeline company official has stated:

> "I expect to be back for a rate boost every year, as long as field prices keep going up."

("Costlier Cooking," The Wall Street Journal, April 14, 1953, p. 1.)

"Favored nation" clauses make it incumbent upon a pipeline company to pay the highest price paid by any other particular purchaser in that field or district. As one seller increases prices, the others likewise receive it from purchasers. See, for example, the *Gulf Interstate Gas Co.* opinion, *supra*. Couple this with the escalator clauses and the possibilities for rampant prices are obvious.

While in the beginning the small market for natural gas, lack of pipelines, and other factors held so-called field prices down, that situation is now changed. With this change the demand for gas far exceeds available supply and to get gas the pipelines must pay higher and higher prices. And as this Court noted in the *Interstate* case, *supra*, page 4, these prices exacted by sellers are firmly imbedded in the rate consumers must pay. Without FPC control over such sellers the purpose of Congress in enacting the Natural Gas Act will be frustrated and defeated. The sky will be the limit if the so-called "independent producers" like Phillips are not subject to some type of maximum price regulation by FPC. To rewrite what Congress said and make that language cover only sales by pipelines at the end of their lines, as Petitioners now urge, finds no possible justification.

5. The cost to users of removing FPC jurisdiction over Phillips, and similar sellers of natural gas, has been estimated at $200,000,00 annually.

As their prices moved ever upward in a rapidly expanding market Phillips and other sellers of natural gas in interstate commerce for resale grew concerned that FPC would step in under the Act to roll back prices found to be exorbitant.

In 1940 when it declined to exercise jurisdiction over incidental sales in interstate commerce (*Columbian Fuel Corp.* case, 2 F. P. C. 200) the FPC mentioned stepping in if unreasonable prices were charged. When FPC asserted and was finally upheld in its jurisdictional claims in the *Interstate* case (*Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682) Phillips and like sellers of gas knew their time had come. They recognized that there is simply no reasonable distinction between *Interstate* and sellers such as Phillips. In its prospectus filed with the SEC in 1947, before FPC proceedings were initiated, Phillips expressly admitted that its operations involve the sale and transportation of natural gas in interstate commerce, so as to constitute it a "natural gas company" under the Act. It said:

> "Although such sales and the transportation of natural gas antecedent thereto constitute operations by the company as a 'natural gas company' under the Natural Gas Act, and, as such, are subject to Federal Power Commission's jurisdiction, unless the exercise of such jurisdiction constitutes an interference with State regulation of production or gathering, the Commission, with Commissioner Draper dissenting in a declaration made on the 15th day of August 1947, disclaimed the intention to exercise jurisdiction over such sales if made at arm's length, that is, sales made as an incident to the producing or gathering operation by a producer or gatherer of gas to a non-affiliate (order No. 139, docket No. R-106)" (R. V. 1782.)

True it is that in the instant case the majority of FPC seized upon a statement in *Interstate* and found expressly

that a conflict with state conservation exists here where none existed there. But the statement in *Interstate* has no basis in the express statutory language of the Natural Gas Act, and, not being the basis for decision there, cannot be looked upon as controlling this case.

The first move of gas sellers was to seek legislative exemption from the Act. Labeling themselves as "independent producers" of natural gas, these sellers sought through the Moore-Rizley[15] and Kerr Bills[16] freedom to charge what the traffic would bear. These bills would have given the gas companies such as Phillips absolute freedom in setting their own rates in arm's length dealings. It was elicited in the testimony that 86 per cent of all natural gas reserves are owned by non-pipeline company producers like *Phillips* (Hearings Before a Subcommittee of the Senate Committee on Interstate and Foreign Commerce on S. 1498, 81st Cong., p. 13, Table 2) and that 58 per cent of the gas entering interstate pipelines in 1947 was purchased from independent producers. Further, by 1952 there would be an estimated increase to 70 per cent. (Hearings on S. 1498, *supra,* p. 16, Tables 7 and 9.)

There was testimony by FPC Commissioner Leland Olds that if the Bill became law a conservative increase in charges to users of $200,000,000 annually was estimated. This increase was based on a possible 5 cent per mcf rise in field prices over the years on purchases of pipeline companies from producers in the Southwest. (Hearings on S. 1498, *supra,* p. 16, Table 10 and p. 283).

Knowing that Congress would not override the Presidential veto of the Kerr Bill (H. Doc. 555, 81st Cong., 2nd Sess., 1950), the effort for legislative change in FPC jurisdiction was abandoned.[17] But the fact that such sellers of

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[15] See footnote [1].

[16] *Ibid.*

[17] The vote in the Senate for the Kerr bill had been 44 to 38, 96 Cong. Rec. 4304 (1950) and in the House 176 to 174, 96 Cong. Rec. 4568 (1950).

natural gas believed FPC had jurisdiction over their sales is significant.

When an industry has dependent upon it the number of States, cities and people that are involved here, with the industry enjoying a monopoly market, regulation is a *sine qua non.* The industry, if freed of FPC jurisdiction, has within its power the right to charge exorbitant and unreasonable rates, rates which would be completely out of line with a just and adequate return on their investment and the service rendered to the consumer. Without FPC regulation the user will be without redress. They have made users absolutely dependent upon their facilities and now seek to avoid reasonable regulation. When companies assume this size they owe a duty to the public which they are serving, in exchange for the monopoly market they enjoy, to charge fair and reasonable rates. To insure the carrying out of that duty under our system of free enterprise statutory regulation is provided. This is and has been true of all utilities enjoying monopoly markets so Phillips was not treated any differently by Congress than others in the same circumstances traditionally have been treated. To say that Congress could not have intended to bring Phillips within FPC's regulating ambit is to deny basic traditions inherent in Congressional action in similar instances. Phillips and other sellers now enjoy a market where demand outstrips supply. And it is because of this condition that they argue that their sales for resale in interstate commerce are exempt from regulation. But in 1938 when supply exceeded demand and producers were not receiving fair prices, there was no outcry against regulation when Congress moved to cure this evil, as the FPC's brief concedes (p. 64), by giving the Commission jurisdiction to fix fair prices for sales for resale in interstate commerce by producers. Now that the day has come when demand outstrips supply they do not want this regulation, but it is just as much in the statute today as it was in 1938. Today, however, the authority must be used to prevent extortionate prices.

The decisions of this Court, cited above, holding that this type of business is of national, *not local,* concern should not be ignored. If the Court of Appeals' decision be reversed then the gains made by the users over the years would be completely obliterated by this $200,000,000 annual possible increase in price to the user. The ever growing rate increase petitions to the FPC, *supra,* indicate that that estimate is probably extremely conservative. For as noted herein field prices have already increased from 10 to 15 cents per mcf, as contrasted with the five cents per mcf upon which the 200 million figure was based.

On the decision in this case rests the financial fate of millions of users whose rights are squarely in issue. Should they be denied the statutory protection which is theirs to expect and demand, then the result undoubtedly will be unregulated, exorbitant, arbitrary and unreasonable prices, which they must of necessity pay and keep paying. All the briefs of Petitioners and of *amici curiae* who support Phillips, seem to concede that higher prices would be the inevitable result of reversal. This situation should never be allowed to materialize since Congress clearly intended to prevent it and did prevent it by clear and unequivocal language.

CONCLUSION

It is respectfully submitted that in the instant case the Federal Power Commission does have jurisdiction and authority to regulate sales for resale in interstate commerce by the Phillips Petroleum Company and, therefore, the judgment of the United States Court of Appeals for the District of Columbia Circuit should be affirmed.

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No. 280

Supreme Court of the United States

OCTOBER TERM, 1953

PHILLIPS PETROLEUM COMPANY, *Petitioner*,

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN, CITY OF DETROIT, MICHIGAN, CITY OF KANSAS CITY, MISSOURI, CITY OF MILWAUKEE, a municipal corporation, COUNTY OF WAYNE, MICHIGAN, and THE FEDERAL POWER COMMISSION, *Respondents*.

PETITION FOR REHEARING OF ORDER DENYING PETITION FOR WRIT OF CERTIORARI

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PETITION FOR REHEARING OF ORDER DENYING PETITION FOR WRIT OF CERTIORARI

Phillips Petroleum Company prays that this Court grant a rehearing of its order of November 30, 1953, denying the petition for writ of certiorari filed herein on August 20, 1953, and further prays that upon rehearing a writ of certiorari issue to review the judgment of the United States Court of Appeals for the District of Columbia Circuit in this case as prayed for in the petition.

REASONS FOR GRANTING A REHEARING AND ISSUING THE WRIT

1.

This is a test case, instituted and conducted as such, involving an important question concerning the interpretation of the Natural Gas Act, affecting thousands of independent producers of gas.[1] It is the first case to reach this Court squarely raising the question of the jurisdiction of the Federal Power Commission over *field sales* of natural gas in interstate commerce *by independent producers and gatherers.*

Since the passage of the Natural Gas Act in 1938 the Federal Power Commission has never asserted power to regulate such sales. In 1940 the Commission held that sales by such producers and gatherers were beyond its jurisdiction. *In the Matter of Columbian Fuel Corp.,* 2 F.P.C. 200. Compare *In the Matter of Billings Gas Co.,* 2 F.P.C. 288. In the course of rate proceedings instituted in 1943 against a natural gas company admittedly subject to the Act, certain statements made by the Federal Power Commission, and by a Circuit Court of Appeals which reviewed its order, were widely construed as casting doubt on the Commission's prior decision in the *Columbian Fuel* case. See *Interstate Natural Gas Co.* v. *Federal Power Commission,* 156 F. 2d 949 (5th Cir. 1946). This Court reviewed the decision of the Court of Appeals. The States of Texas and Oklahoma filed briefs *amici curiae* expressing concern lest the reasoning of the Court of Appeals lead to Federal regulation of field sales by independent producers and gatherers. Counsel for the Federal Power Commission denied that the result would follow, asserting that Interstate's sales were distinguishable from field sales by inde-

[1] By "independent" is meant those producers and gatherers who do not own or operate transmission lines and are not affiliated with any other company which owns or operates transmission lines.

pendent producers.[2] In its opinion this Court, referring to the *Columbian Fuel* and the *Billings* cases, said: "We express no opinion as to the validity of the jurisdictional tests employed by the Commission in these cases." *Interstate Gas Co.* v. *Federal Power Commission*, 331 U.S. 682, 691. Presumably the Court meant by this language to reserve decision upon facts like those in the *Columbian Fuel* case until it had such a case before it. This is such a case.

Clarifying legislation which excluded from regulation field sales of natural gas in interstate commerce by independent producers and gatherers was passed by Congress and was vetoed by the President in 1950. H.R. 1758, 81st Cong., 2d Sess. Subsequently, this Court again expressly reserved the question. *Cities Service Gas Co.* v. *Peerless Co.*, 340 U.S. 179, 188-189.

This case was deliberately instituted by the Commission to bring to final and authoritative decision the question of the extent of its jurisdiction. In its opinion in this case the Commission, after referring to the desirability of judicial review of its determination, said (R. 1749):

> "We would be greatly concerned if our decision were not so reviewable for we deem it of the utmost importance that there be an *early and conclusive answer* to the question whether we have erred in refraining from asserting jurisdiction over sales made in the process of production and gathering throughout the 13 years under the Natural Gas Act." (Italics supplied.)

The Commission, the industry generally and the affected producing states all assumed throughout the proceedings before the Commission, before the Court of Appeals and in the petition for certiorari in this case and in Nos. 281 and 418 that the basic jurisdictional question would here be decided. This Court by its Order of November 30, 1953, declined to review that question, thereby accentuating

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[2] Brief of Federal Power Commission, pp. 26, 34, 40-41, in *Interstate Gas Company* v. *Federal Power Commission*, 331 U.S. 682.

rather than clarifying the confusing situation which has plagued the industry, the Federal Power Commission, state regulating authorities and the public generally. Petitioner respectfully submits that the petition should be reconsidered and granted.

2.

Because of the importance of the question presented in this case, it must be assumed that it will be raised again before this Court either in later stages of this proceeding or in other proceedings involving other independent producers or gatherers of natural gas. It may also be assumed that this Court does not believe that this basic jurisdictional question is too unimportant to deserve the attention of this Court and therefore should be committed permanently to the consideration of the lower Federal tribunals.

In these circumstances, we submit that this Court should grant a writ of certiorari at this time. The question decided by the Court of Appeals "is fundamental to the further conduct of the case" and for that reason should be reviewed by this Court now. *United States* v. *General Motors Corp.*, 323 U.S. 373, 377; *Land* v. *Dollar*, 330 U.S. 731, 734, Footnote 2; *Larson* v. *Domestic and Foreign Corporation*, 337 U.S. 682, 685, Footnote 3.

Certainly no public or private interest can be served by postponing this Court's consideration of the question until the conclusion of a long and laborious rate proceeding. Such a proceeding would develop no additional facts that would assist this Court in deciding the jurisdictional question; all the necessary facts were fully developed in extensive hearings before the Commission. On the contrary, delay in deciding the question will have serious adverse effects upon both the industry and the consuming public. During the several years that will ensue before this case is again ripe for review by this Court, the oil and gas producing industry will be in a state of confusion and doubt

due to the uncertainty of whether gas sales may be made to interstate pipe line companies without subjecting the seller to regulation as a natural gas company. A final and definitive decision by this Court is needed to remove this confusion and doubt.[3]

Although the distribution of gas through interstate pipe lines has expanded markedly since World War II, the demand by consumers far exceeds the available supplies.[4] Over 70 percent of the gas flowing through these pipe lines is produced by independent producers not heretofore regulated as a utility or deemed subject to the federal regulation.[5] It is axiomatic that producers will sell their gas in intrastate markets rather than to interstate pipe lines if the effect of sales to the latter may be to subject the seller to utility regulation under the Natural Gas Act. This means that independent producers will be loath to commit additional quantities of gas to interstate pipe lines and will be prone to discontinue existing sales to them wherever the opportunity is presented, as long as the doubt remains

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[3] The judgment of the Court of Appeals is not such a final and definitive decision. Admittedly the order of this Court denying the petition for writ of certiorari adds nothing to the authority of the opinion of the Court of Appeals. This Court has repeatedly admonished the bar and litigants that a denial of a petition for a writ of certiorari cannot be taken as indicating any view on the merits of the case. *United States* v. *Carver*, 260 U.S. 482, 490; *House* v. *Mayo*, 324 U.S. 42, 48; *Brown* v. *Allen*, 344 U.S. 443, 456, 488, 492, 513, 543. Quite apart from this familiar principle it is not to be assumed that this Court would in any circumstances decide the merits of the important question presented in this case on a petition for a writ of certiorari and without a full hearing.

[4] *Natural Gas—Whoosh!* Fortune, December 1949, p. 107;
Economics of a Growth Industry, Business Week, September 26, 1953, pp. 85, 94;
The Outlook for Energy Sources, Vol. III, pp. 15, 19, Resources for Freedom (commonly referred to as the "Paley Report"), Government Printing Office, 1952.

[5] R. 728-731.

concerning their status under the Act.[6] In many instances producers will leave their gas in the ground, or where legally permissible (in the case of casinghead gas) pop it into the air rather than sell it into a market which may result in the regulation of the producer as a natural gas company.[7]

Moreover, it is clear that with the threat of Federal regulation hanging over them, producers of gas will curtail their expenditures for exploration, drilling, gathering and processing facilities. Independent producers have not voluntarily gone into the producing business, with the attendant hazard of entire loss of capital, with the expectation of having their profits, if any, limited by law to a 6 percent annual rate of return on their investment, such as customarily allowed natural gas companies, and it is highly improbable that they will continue to invest in a business where the status of a public utility may be thrust upon

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[6] *Phillips Ruling to Mean Federal Control . . . But to What Extent?* The Oil and Gas Journal, December 7, 1953, pp. 68, 70;

Federal Control Can Flow Through Gas Lines, The Petroleum Engineer, September 1953, pp. A-37, A-51;

Economics of a Growth Industry, Business Week, Sept. 26, 1953, pp. 85, 98;

How Federal Regulation of Producers Works Against Consumers, Gas Age, May 8, 1952, p. 59;

Developments in the Law Relating to Natural Gas During 1952-1953, Public Utilities Fortnightly, Oct. 8, 1953, pp. 521, 527;

Views of the Gas Industry on Regulation, Public Utilities Fortnightly, May 7, 1953, p. 634;

Comment, 59 Yale L. J. 1468, 1490;

Natural Gas Investigation, Federal Power Commission, Docket G-580, Report of Commissioners Smith and Wimberly, U. S. Government Printing Office (1948), p. 170.

[7] *The Outlook for Energy Sources,* Vol. III, p. 22, Resources for Freedom (Paley Report), Government Printing Office, 1952;

Economics of a Growth Industry, Business Week, September 26, 1953, pp. 85, 98.

them.[8] This means a drastic reduction in new discoveries and production which are necessary to satisfy the expanding demand for natural gas,[9] the cleanest, the cheapest and the most desirable of all fuels available to the consuming public.[10] These factors will result in both physical and economic waste of gas and will seriously impair the conservation efforts of state regulatory authorities.[11]

In addition to these business and economic problems, the independent producers and gatherers who sell gas to interstate pipe lines are also faced with the question whether,

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[8] Statistics show that under regulation the percentage of gas produced by natural gas companies has markedly declined. In 1940, the then eight major interstate pipe line companies produced, directly or through affiliates, over 47% of the gas which they sold. Since that date, although investments and sales have increased substantially, every major system constructed has relied almost entirely on purchased gas. By 1951, the production of the eight older companies had declined from 47.2% of their total requirements to 30.1%. In that year, these eight pipe lines, together with the seven major pipe lines constructed since 1940, produced only 18.5% of their total requirements. Concurring opinion of Commissioner Smith, In the Matter of Northern Natural Gas Company, Docket G-1618, Opinion No. 230, June 18, 1952, — F.P.C. ——. As Commissioner Smith stated, it is difficult to "believe that all this is due to coincidence, free from connection with the Commission's rate-making methods."

[9] Even without the artificial deterrent of the threat of regulation, exploration for gas will have to continue at an increasing rate in order to meet future demands. *Foundation for Growth and Security*, Vol. I, p. 111, and *The Outlook for Energy Sources*, Vol. III, p. 15, Resources for Freedom (Paley Report), Government Printing Office, 1952.

[10] *The Outlook for Energy Sources*, Vol. III, p. 19, Resources for Freedom (Paley Report), Government Printing Office, 1952.

Natural Gas—Whoosh! Fortune Magazine, December 1949, pp. 107, 108. The editors there refer to natural gas as "cheap at twice the price".

[11] R. 417-418, 472-473.

Federal Control Can Flow Through Gas Lines, The Petroleum Engineer, September 1953, pp. A-37, A-51.

Natural Gas Investigation, Federal Power Commission, Docket G-580, Report of Commissioners, Smith and Wimberly, United States Government Printing Office (1948), p. 170.

by reason of the interpretation of the statute adopted by the majority of the Court of Appeals, they must now voluntarily comply with the mandatory provisions of the Natural Gas Act requiring the filing of rate schedules, the obtaining of certificates of convenience and necessity for the construction and operation of facilities, the keeping of accounts and the making of periodic reports, or run the risk of the severe penalties provided by Section 21a of the Natural Gas Act.

3.

In their joint response to the petition for certiorari in No. 418 of this term, the respondents, for the first time, suggested that this case does not raise any general question of the application of the statute to sales made by independent producers and gatherers but turns simply on the peculiar nature of Phillips' operations.[12] There is no merit in this contention. The Commission's finding that Phillips' sales were made during the course of production and gathering was intended to be and is in effect a finding that Phillips' operations, despite their size, do not differ significantly in type of function from the operations of any independent producer and gatherer. It is beyond dispute that Phillips' sales of gas are made immediately upon the completion of

[12] Respondents' own arguments refute their contention. Respondents state in their response in No. 418 (p. 3) that the Power Commission found that Phillips engaged in (a) sales for resale in interstate commerce and (b) in transportation in interstate commerce, and then assert "both of which bring Phillips within the affirmative jurisdictional provisions of Section 1 (b)". Every producer who sells gas to interstate pipe lines, whether at the well head or elsewhere, is covered by (a) above. And since gathering necessarily involves movement of gas by pipe line (the only kind of transportation which the Commission found Phillips to be engaged in), every gatherer who delivers gas to an interstate pipe line is covered by (b) above. Thus, if respondents' arguments are correct, the decision of the majority of the Court of Appeals subjects to Federal regulation all independent producers and gatherers who sell gas to interstate pipe lines.

production and gathering, and are typical of hundreds of other sales not heretofore regarded as subject to Federal regulation. They are the same type of operation involved in the *Columbian Fuel* case upon which this Court reserved decision. The Court of Appeals itself regarded the case as raising the question of the general application of the statute to all such sales. That Court stated in the concluding passage of its opinion (R. 1865):

> "But the validity or invalidity of the Commission's conclusion that Phillips is not a 'natural gas company' *does not turn upon the evaluation of testimony or upon any facts peculiar to this case. It turns upon the generic question* whether the exemption of 'production or gathering' in § 1(b) of the Natural Gas Act covers interstate sales of gas by the corporation that produced and gathered it. We think the Act and the decisions of the Supreme Court permit only one answer. We think the Commission has applied an erroneous rule of law." (Emphasis supplied.)

4.

The decision of the Court of Appeals directly and substantially affects the producing states and their regulation of independent producers and gatherers in the interests of conservation. The widespread and legitimate concern of the states in this aspect of the decision is evidenced by a resolution passed by the Interstate Oil Compact Commission, whose members comprise 26 producing states, on December 5, 1953, after this Court's denial of the petition for writ of certiorari herein. That resolution, after referring to the decision by the Court of Appeals, recites that it is the opinion of the Interstate Oil Compact Commission that extension of Federal jurisdiction so as to permit "partial regulation of the production and gathering of natural gas will, as the Federal Power Commission found and stated as a fact, substantially interfere with state regulation of production and gathering of natural gas," and concludes by stating that the Commission calls "the seriousness of the

situation to the attention of its member states" and urges them "to take every step possible to secure the reversal of the aforesaid decree."

CONCLUSION

For all of the foregoing reasons Phillips Petroleum Company prays that this petition for rehearing be granted, and that upon rehearing its petition for writ of certiorari be reinstated and granted.

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CERTIFICATE OF COUNSEL

We hereby certify that the foregoing petition for rehearing is presented in good faith and not for delay and is restricted to grounds specified in Rule 33 of the Rules of this Court.

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TION FILED DEC 22 1953

DEC 22 1953

HAROLD B. WILLEY, Clerk

Nos. 280, 281

Denied 4/18/54

Supreme Court of the United States

OCTOBER TERM, 1953

PHILLIPS PETROLEUM COMPANY, *Petitioner*,

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, a municipal corporation; COUNTY OF WAYNE, MICHIGAN; and THE FEDERAL POWER COMMISSION, *Respondents*.

STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; and STATE OF NEW MEXICO AND OIL CONSERVATION COMMISSION OF NEW MEXICO, *Petitioners*,

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; and THE FEDERAL POWER COMMISSION, *Respondents*.

On Petitions for Rehearing on Petitions for Writs of Certiorari to the Court of Appeals for the District of Columbia Circuit.

MOTION FOR LEAVE TO FILE BRIEF AMICI CURIAE AND BRIEF

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PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

Supreme Court of the United States

OCTOBER TERM, 1953

No. 280

PHILLIPS PETROLEUM COMPANY, *Petitioner,*

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, a municipal corporation; COUNTY OF WAYNE, MICHIGAN; and THE FEDERAL POWER COMMISSION, *Respondents.*

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On Petitions for Rehearing on Petitions for Writs of Certiorari to the Court of Appeals for the District of Columbia Circuit.

MOTION FOR LEAVE TO FILE BRIEF AMICI CURIAE

To the Honorable, The Chief Justice and the Associate Justices of the Supreme Court of the United States:

Now come The Independent Petroleum Association of America, Independent Natural Gas Association of America, Texas Independent Producers and Royalty Owners Association, and Panhandle Producers and Royalty Owners Association, and respectfully move this Court, pursuant to

Rule 27, Paragraph 9 of the rules of this Court, for leave to file the accompanying brief in these cases as amici curiae. The interests of the organizations set forth above and their reasons for asking for leave to file a brief amici curiae are set forth below.

The Independent Petroleum Association of America is a corporation organized and existing under the laws of the State of Oklahoma. The membership of the Association consists of more than 11,000 individuals and corporations who are interested in various branches of the oil and gas industry. The Association's primary interest is in the local function of producing and gathering crude oil and natural gas. Some members produce dry natural gas. Many members of the Association produce gas associated with crude oil. The activity is a single one. It cannot be separated. Any matter affecting the production of gas inescapably affects the intermingled activity of crude oil production. Every oil and gas producing area of the United States is represented in the membership of the Association.

The Independent Natural Gas Association of America is a corporation organized and existing under the laws of the State of Delaware. The membership of the association is composed of approximately 1,900 members, including producers, royalty owners, transporters (interstate and intrastate), natural gas companies (under the Natural Gas Act) and distribution companies, located in forty-three different states including all natural gas producing states and most of the natural gas consuming states. The principal business objectives and purposes of the association, as set forth in its charter, are to promote and advance the welfare, progress and development of the natural gas industry in the United States. This Association participated in this proceeding as an interested party intervenor before the Federal Power Commission. Permission to file this brief has been requested of all parties. Several have declined such permission.

The Texas Independent Producers and Royalty Owners Association is an unincorporated association composed of

more than 4,500 members who are independent producers of, or royalty owners of, gas or oil under and produced from land lying in the State of Texas.

The Panhandle Producers and Royalty Owners Association is an association consisting of a large number of producers and royalty owners who are interested in the production of gas in the huge Panhandle Field of Texas.

Ambiguous court decisions concerning the jurisdiction of the Federal Power Commission under the Natural Gas Act with respect to the sales of natural gas in connection with production and gathering activities have caused uncertainty and confusion within the oil and gas industries for several years. The divided opinion below instead of clarifying the statute has compounded this uncertainty and confusion.

The movants, therefore, are vitally interested in the matters involved in these cases and clarification of the decision below for reasons more fully developed in the attached brief.

Respectfully submitted,

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On Petitions for Rehearing on Petitions for Writs of Certiorari to the Court of Appeals for the District of Columbia Circuit.

BRIEF AMICI CURIAE OF THE INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA, INDEPENDENT NATURAL GAS ASSOCIATION OF AMERICA, TEXAS INDEPENDENT PRODUCERS AND ROYALTY OWNERS ASSOCIATION, AND PANHANDLE PRODUCERS AND ROYALTY OWNERS ASSOCIATION

The Independent Petroleum Association of America, Independent Natural Gas Association of America, Texas Independent Producers and Royalty Owners Association,

and Panhandle Producers and Royalty Owners Association, as amici curiae, respectfully request that the Court grant a rehearing of its orders entered November 30, 1953, denying the petitions for writ of certiorari and that a writ of certiorari issue to review the judgment of the Court of Appeals for the District of Columbia Circuit in the above entitled cases.

The amici curiae are associations whose members are intimately concerned with the business of natural gas in the United States. One is an association of producers and gatherers of oil and gas and land and royalty owners throughout this country. Another is an association of producers, transporters and distributors of natural gas in the United States. One has in its membership several thousand independent producers and royalty owners in the State of Texas. Two are associations whose members are interested in certain areas in Texas where large quantities of gas are produced. Through these associations there are represented here thousands of producers, gatherers, land and royalty owners, transporters and distributors of natural gas.

REASONS FOR GRANTING A REHEARING AND ISSUING THE WRIT

The petitions for certiorari in the above entitled causes disclose the kind of question which this Court has indicated by its rules and by its decisions is proper for it to consider. The Court of Appeals for the District of Columbia Circuit has decided an important question of federal law which has not been but should be settled by this Court. This is the first case to reach this Court raising the question of jurisdiction of the Federal Power Commission under the Natural Gas Act over field sales of natural gas in interstate commerce by a producer and gatherer who does not own or operate and is not affiliated with any company which owns or operates transmission pipelines. The question presented is of national importance as is evidenced by

the fact that the Federal Power Commission, through the Acting Solicitor General of the United States, and the states of Texas, Oklahoma and New Mexico have petitioned this Court for review.

In addition to the above stated reasons for granting a rehearing and issuing the writ, a further reason is the necessity for an authoritative decision by the Court on the question involved. No criteria are furnished by the opinion below whereby those engaged in the production or gathering of natural gas may schedule orderly operations or make commitments for the future with any reasonable assurance of their status with respect to federal regulation under the Natural Gas Act. Transporters and distributors are concerned that the uncertainties and confusion among producers and gatherers may adversely affect their ability to meet their obligations to the consuming public.

For many years the oil and gas producing industry has been in a state of confusion and doubt in respect to the authority of the Federal Power Commission to regulate field sales of gas by independent producers and gatherers incident to its production and gathering. The origin and the development of these doubts have been sufficiently related in other briefs in these causes. Widespread economic interests are involved. This state of confusion is detrimental to the interests of independent producers and gatherers and in fact to all branches of the natural gas industry as well as the consumers. It has long been hoped that an authoritative court decision would clarify these issues. To the contrary, the Court of Appeals decision here involved has intensified the confusion and uncertainty faced by independent producers and gatherers of gas. The independent producer and gatherer of gas is left without guidance.

Denial of certiorari by this Court indicates no approval or disapproval of the decision below (*Maryland* v. *Baltimore Radio Show*, 338 U.S. 912; *Agaston* v. *Penn.*, 340 U.S. 884; *Brown* v. *Allen*, 345 U.S. 946. The situation stands therefore precisely as if certiorari had not been applied for.

A decision by one Court of Appeals, even with the concurrence of all three judges, would be little assurance that the decision would be sustained by this Court. A decision by a divided Court, such as the one here, is all the more uncertain. Therefore, nothing has been settled and the confusion and doubt remain.

Dean Pound has stated:[1]

> "... The opinion of the court not only determines the law applicable to the case in hand and grounds the judgment in that case, but it has the wider function of furnishing a starting point for judicial reasoning in analogous cases both in the jurisdiction in which it is delivered and in other jurisdictions ..."

The decision of the Circuit Court has not fulfilled this function.

If it could be assumed that the decision of the Court of Appeals correctly interprets the Natural Gas Act, independent producers and gatherers are confused and uncertain in respect to the application of the decision to their operations. The Court's reasoning is obscure and it cannot be determined with certainty just which sales for resale in interstate commerce are subject to federal authority or whether Phillips' sales are subject because of special circumstances and if so what the controlling circumstances are.

The Court said that Phillips "sells the gas after the time and beyond the place at which production and gathering are complete and after processing has intervened." But where were production and gathering complete? It may be inferred they were complete at least by the time the gas entered the gasoline plant inasmuch as the Court said that processing intervened. Many questions remain unsettled which are perplexing to the independent producers and gatherers: Would the sales have been exempt from the Act if the gas had been delivered to an interstate pipe line

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[1] American Bar Association Journal, Sept., 1953, Vol. 39, page 795.

without processing? If "processing" is the test, then what types of processing is determinative? Was it the processing of the gas, or was it the flow of the gas from the exhaust of the plant "about 240 feet through a Phillips' pipe line to sales meters" which subjected sales to regulation? Or did gathering end, as some of the witnesses for the Federal Power Commission Staff contended, at a point in the field where the gas is first brought from the well where it is commingled with gas from one or more other wells? (R. 681-692) Are production and gathering complete when the the gas first enters "high pressure trunk lines"[2] even if

[2] The opinion of the Court in this case is the first time to our knowledge that any Court has ever used the term "high pressure trunk lines" in relation to gathering lines or lines which serve the function of collecting the gas to a central point for processing or for delivery to a pipe line. Certainly this Court has never used that expression in respect to anything except transmission lines in discussing the states' regulatory power over them. F.P.C. v. East Ohio Gas Co., 338 U.S. 464, 470. In that case this Court said:

> "For in decisions prior to enactment of the statute this Court had sharply distinguished between the two: *it had made it clear that the national commerce power alone covered the high-pressure trunk lines to the point where pressure was reduced and the gas entered local mains, while the state alone could regulate the gas after it entered those mains. (10) The legislative history shows that the attention of Congress was directly focused on the cases drawing this distinction.*" (Emphasis supplied)

In footnote (10) to that opinion the Supreme Court, after reviewing its decisions antedating the Natural Gas Act, concluded:

> *"Thus when the Natural Gas Act was passed this Court's decisions had already resulted in a sharp cleavage between local distribution facilities and high-pressure pipe lines serving those facilities."* (Emphasis supplied)

Gathering lines irrespective of their size or pressure were not high-pressure lines serving distribution facilities nor were they involved or mentioned in the cases above upon which "the attention of Congress was directly focused." The significant thing is the economic function performed by the lines, not the question of pressure. Compare *Panhandle Eastern Pipe Line Co.* v. *Public Service Company*, 332 U.S. 507, 513; *Mississippi* v. *Interstate Natural Gas Co.*, 284 U.S. 41.

those lines are still serving the function of bringing the gas to a gasoline plant or a transmission line in the field of production? If the decision of the Court of Appeals is to be construed to extend the high pressure trunk line doctrine to gathering lines, how are the independent producers and gatherers to know what constitutes high pressure and what constitutes trunk lines? Most gas from gas wells, as distinguished from gas from oil wells, is gathered under the natural pressure of the wells. Gas from oil wells, known as casing-head gas, is sometimes, but not always, compressed in order to make it flow through the gathering lines, but the artificial pressure is normally less than the natural pressure from gas wells. How to apply the high pressure trunk line doctrine to this type of situation would be most puzzling to producers and gatherers.

The statute itself says that it "shall not apply . . . to the production or gathering." The exemption is all inclusive. The physical activities of producing and gathering gas, as well as the economic activity, i.e., the sale of gas incident to its production and gathering, are outside the scope of the law. Although the opinion below recognized that sales of gas at the wellhead are not subject to regulation under the Natural Gas Act, the question still arises as to the extent of the exemption, i.e., that point in production and gathering operations or activities at which the jurisdiction of the Federal Power Commission under the Act attaches. While the function of "gathering" is exempt by the Act, the decision casts uncertainty upon what activities are properly to be included within the scope of "gathering" as the word is used in the Act. Likewise, the decision is not clear as to the effect of "processing" upon the jurisdictional status of sales. In the decision, emphasis is repeated to the effect that in this case the sale occurred *after* production and gathering had ceased and processing "intervened." What is the situation if some form or type of processing is performed during "gathering"? The decision does not provide the answer.

These and many other questions remain unanswered by the opinion of the Court of Appeals, and there is no consistent policy or doctrine expounded by that Court whereby these questions may be resolved.

The industry is, therefore, confounded with greater confusion and doubt than it was before the decision of the Court of Appeals. Only this Court can correct the situation. We urge this Court to do so.

Respectfully submitted,

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IN THE SUPREME COURT OF THE UNITED STATES.

October Term, 1953.

No. 280

Phillips Petroleum Company, *Petitioner,*

vs.

State of Wisconsin and Public Service Commission of Wisconsin; City of Detroit, Michigan; City of Kansas City, Missouri; City of Milwaukee, Wisconsin; County of Wayne, Michigan; and The Federal Power Commission,
Respondents.

No. 281

State of Texas and The Railroad Commission of Texas; Corporation Commission of Oklahoma; and State of New Mexico and Oil Conservation Commission of New Mexico,
Petitioners,

vs.

State of Wisconsin and Public Service Commission of Wisconsin; City of Detroit, Michigan; City of Kansas City, Missouri; City of Milwaukee, Wisconsin; County of Wayne, Michigan; and The Federal Power Commission,
Respondents.

No. 418

Federal Power Commission, *Petitioner,*

vs.

State of Wisconsin and Public Service Commission of Wisconsin, et al., *Respondents.*

MOTION FOR LEAVE TO FILE BRIEF *AMICI CURIAE.*

To the Honorable, The Chief Justice and the Associate Justices of the Supreme Court of the United States:

Independent Petroleum Association of America, Mid-Continent Oil and Gas Association, Texas Independent Pro-

ducers and Royalty Owners Association, Independent Natural Gas Association of America, Rocky Mountain Oil and Gas Association, New Mexico Oil and Gas Association, Western Oil and Gas Association, Panhandle Producers and Royalty Owners Association, and Natural Gasoline Association of America, respectfully move this Court, pursuant to Rule 27, Paragraph 9 of the Rules of this Court, for leave to file the accompanying brief in these proceedings as *amici curiae*. The interests of the organizations set forth above and their reasons for asking leave to file a brief *amici curiae* are set forth below.

Name	*Address*	*Number of Members*
Independent Petroleum Association of America	Tulsa, Oklahoma	11,000
Mid-Continent Oil and Gas Association	Tulsa, Oklahoma	7,336
Texas Independent Producers and Royalty Owners Association	Austin, Texas	4,500
Independent Natural Gas Association of America	Washington, D. C.	1,900
Rocky Mountain Oil and Gas Association	Casper, Wyoming	425
New Mexico Oil and Gas Association	Roswell, N. Mexico	400
Western Oil and Gas Association	Los Angeles, California	176
Panhandle Producers and Royalty Owners Ass'n	Amarillo, Texas	115
Natural Gasoline Association of America	Tulsa, Oklahoma	75

Many of the activities of Phillips Petroleum Company are similar to the activities of many of the independent producers and gatherers represented by these associations. Consequently, this Court's decision of the issue in this case can become a precedent for the regulation or freedom from regulation of some of the members of these associations.

In the past, ambiguous court decisions concerning the jurisdiction of the Federal Power Commission under the Natural Gas Act with respect to sales of natural gas by independent producers and gatherers have led to confusion and uncertainty in the industry. The ultimate purpose of these associations is to urge this Court to construe clearly and finally the Natural Gas Act so as to exempt such sales from regulation by the Federal Power Commission, but it is of immediate and compelling importance that this Court have before it in its consideration of this case certain facts not believed to be adequately presented in other briefs, as set forth in the accompanying brief, in order that its decision in this case will conform to the realities of the industry and will not give rise to further confusion and uncertainty.

Respectfully submitted,

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On Writs of Certiorari to the Court of Appeals for the District of Columbia Circuit.

BRIEF *AMICI CURIAE*

of the

Independent Petroleum Association of America, Mid-Conti-

nent Oil and Gas Association, Texas Independent Producers and Royalty Owners Association, Independent Natural Gas Association of America, Rocky Mountain Oil and Gas Association, New Mexico Oil and Gas Association, Western Oil and Gas Association, Panhandle Producers and Royalty Owners Association, and Natural Gasoline Association of America.

Independent Petroleum Association of America, Mid-Continent Oil and Gas Association, Texas Independent Producers and Royalty Owners Association, Independent Natural Gas Association of America, Rocky Mountain Oil and Gas Association, New Mexico Oil and Gas Association, Western Oil and Gas Association, Panhandle Producers and Royalty Owners Association, and Natural Gasoline Association of America are trade associations with members representing all branches of the oil and gas industry and constituting a large majority of the oil and gas producers in the United States.

This brief is presented because it is the considered opinion of the undersigned that the Court of Appeals erred in its construction of the Natural Gas Act. The error is one which, if not corrected by this Court, will vitally affect the future of the oil and gas industry. The error of the court probably resulted from a lack of emphasis of certain material and controlling facts involved. It is not our purpose to restate the facts or duplicate arguments appearing in the briefs of the parties to this case, but merely to call attention to or emphasize additional facts which we believe will be of benefit to the Court in its consideration of this case.

ARGUMENT.

I.

The Natural Gas Act Is Not Designed to Regulate Independent Producers and Gatherers.

A considerable portion of the Commission's opinion (90 PUR (NS) 325, 337-340) in this case is devoted to a discussion of the legislative history of the Natural Gas Act, from which the Commission concluded that Congress did not intend to regulate independent producers and gatherers.[1] Much additional discussion concerning the legislative history of the Act is contained in the briefs of Phillips Petroleum Company and the Federal Power Commission.

We subscribe to the conclusions drawn by Phillips and the Federal Power Commission from the legislative history, but we believe there are further and equally compelling facts which lead to the same conclusion—that Congress did not intend to regulate independent producers and gatherers of gas. Those facts show that the Natural Gas Act was not designed for the purpose of regulating independent producers and gatherers. Regulation would be difficult, if not impossible, and would lead to results which Congress would not have intended even if it had sought to regulate independent producers and gatherers.

A. *By its very nature, the business of the independent producer and gatherer is not susceptible to utility regulation.*

The business of producing and gathering natural gas has none of the characteristics of a public utility. It is highly competitive; there are no franchises that give one

1. The Commission reached the same conclusion after a similar review of the legislative history only two years after the Act was passed. Re Columbian Fuel Corporation, 35 PUR (NS) 3, 6-10 (1940).

producer and gatherer preference or a protected area of operations or that restrict competition or afford a monopoly. On the contrary, it is a risk-taking business, presenting regulatory problems of tremendous magnitude. Absent a specific undertaking to regulate such a business and a clear recognition of the problems to be encountered, of which there is neither, the intent to regulate this business should not be ascribed to Congress.

The business of the independent producer and gatherer is speculative. It is characterized by great risks. Despite the technical improvements in geological and geophysical methods of locating structures favorable to the accumulation of oil or gas, only drilling can determine whether these products underlie any location. Of every nine new-field exploratory wells drilled, only one on the average discovers oil or gas.[2] Only one in 967 discovers a major field.[3] Many discoveries cannot be profitably operated, because of poor reservoir conditions, small reserves, or excessive cost. Even the development of discovered fields often results in the drilling of many dry holes. The hazards, risks, and costs increase with the necessity for deeper drilling,[4] the development of areas in mountains, swamps, bays, and offshore in deep water. The average cost of oil wells drilled in the

2. Lahee, *Exploratory Drilling in 1952*, Bulletin of the American Association of Petroleum Geologists, June, 1953, 37: 1193-1210; Smith, *Exploration Record*, World Oil, February 15, 1954, 138: 89-92.

3. Lahee, *Degrees of Success in Wildcat Drilling*, Bulletin of the American Association of Petroleum Geologists, January, 1951, 35: 138, 140.

4. "Deeper horizons furnish one of the most favorable positions for the additional discovery of both gas and oil." Much exploration remains to be done at depths below 10,000 feet. Stockton, Henshaw & Graves, *Economics of Natural Gas in Texas*, Bureau of Business Research, University of Texas (1952), p. 138.

last few years is more than $100,000.[5] Often exploratory wells cost $500,000 to $1,000,000 or more; when abandoned as dry holes, they generally result in the surrender of leases on the surrounding area at great loss of investment.

To compensate for these risks, to induce investment of new capital and reinvestment of profits, the returns on successful ventures must be attractive. They must be sufficient to pay for exploration expense and all the unsuccessful ventures and yield such a profit as will induce the operator to risk investment in new ones. The returns on some ventures must be relatively high, in order that when taken with all the unsuccessful ventures, the average will be a reasonable return on the total investment. The risks are too great to secure the necessary expenditures for exploration and development on the basis of a fixed percentage return on the investments in the successful ventures.

Even assuming that the Commission would attempt to include the cost of dry holes in determining a rate base, full justice could not be done to the independent producer and gatherer. In establishing a rate base, the Federal Power Commission must determine what is "used and useful" property. The producer and gatherer's operations are not and cannot be confined to any given locality. He must go wherever it appears likely that oil and gas may be found. The cost of those exploratory operations must necessarily be paid for by the returns from present productive properties, whether or not the exploration might bear even the remotest possibility of being "used and useful" in connection with present properties.

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5. McLaughlin, *Well Completion Costs Rise Sharply*, World Oil, September, 1953, pp. 84, 86; Hardwicke, *Oil-well Spacing Regulations and Protection of Property Rights in Texas*, 31 Tex. L. Rev. 99, 111 (Dec. 1952).

Nor would full compensation be afforded if the Commission were to abandon the rate base method and adopt some other form of rate determination. The hardship would be felt by the producer and gatherer whatever the basis of rate-making employed. *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U. S. 581, 603-604 (1945).

B. *Regulation of independent producers and gatherers' gas prices will mean an indirect regulation of oil prices.*

Oil and gas are usually associated together in the ground. Any well, if productive at all, may produce oil, or gas, or both. Certainly the oil producing industry and the gas producing industry are so entwined that it is impossible to make any separation between them except in isolated instances.[6] The history of the gas producing business shows that it has been dependent for the development of new reserves upon the exploration for oil. Only in relatively recent years, corresponding with the increase in field prices for natural gas, has there been any concentrated effort to develop new reserves of gas, apart from exploration for oil.

This relationship between the two industries means that an oil producer will sooner or later be in the gas business.

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6. As one ground for its original conclusion that it does not have jurisdiction over independent producers and gatherers of gas, the Commission referred to the "complicated interrelationship between the natural gas industry and the oil industry." It concluded that "to make regulation of producers and gatherers effective under these circumstances would require statutory authority of much wider scope and machinery exceeding that at the disposal of the Commission with its present limited appropriation." Re Columbian Fuel Corporation, 35 PUR (NS) 2, 10 (1940).

If he finds oil, he will also have gas to sell. It is not a matter of choosing to go into the gas producing business or choosing to stay out of it. The independent producer and gatherer would necessarily be engaged in two businesses as a result of the same operations, one of his products being regulated and the other not.

The result of this circumstance is that the independent producer and gatherer would inevitably find both of his products regulated, the regulation of gas being direct and that of oil indirect. By indirect we mean that, although the Commission would profess, and rightly so, not to regulate oil prices, it is inconceivable that regulation of gas prices would not affect the return from oil. The only possible method of dividing costs between the two products would be upon the basis of some accounting allocation. While accounting allocations have their place, they are necessarily approximations and usually arbitrary ones at that.

Certainly in making any such allocation, the Commission would have to attribute some cost to exploring for and producing oil. In some instances, the return from the oil alone will pay for all the cost. In others, the total returns from both the oil and the gas will not be sufficient to pay the cost. What cost should be charged to oil in both of these situations is almost anybody's guess. But since the Commission is charged with the duty of determining the "lowest reasonable rate" for gas,[7] its natural tendency would be to charge as much of the cost to oil as possible, thus reducing the return from oil. If the Commission should adopt the same practice with oil as it has with natural gasoline plants

7. Natural Gas Act, Sec. 5(a), 15 USC Sec. 717d(a).

belonging to natural gas companies,[8] the effect upon oil would be drastic indeed.

C. *Where the gas sold is casinghead gas, the gatherer's price cannot be regulated without also regulating the producer's wellhead price.*

We do not understand the opinion of the majority of the Court of Appeals to imply that regulation of the prices received by the producer at the well is within the intent of the Act. But a substantial portion of all gas delivered to interstate pipe line companies is "residue gas" from casinghead gas produced with oil from oil wells. Under the usual practices of the industry, in this situation it would be impossible to regulate the gatherer's price without also regulating the producer's price at the wellhead.

The casinghead gas is produced by the producer intermittently as an incident to the production of oil. After it is processed for the removal of liquids, it is required as fuel for the operation of the oil wells and appurtenant facilities and frequently is required for reinjection into the reservoir to maintain the driving force for the oil. So, under contract with the producer, the gatherer takes the casinghead gas at the wells, gathers it to a central point for processing and returns to the producer's leases "residue gas" required for fuel and reinjection purposes. The balance not returned to the producer, if any, may be sold to a transmission company. The contractual arrangement between the producer and gatherer is usually a so-called "Casinghead Gas Pur-

8. Cf. Cleveland and Akron v. Hope Natural Gas Company, 44 PUR (NS) 1, 27 (1942); Re Cities Service Gas Company, 50 PUR (NS) 65, 85-88 (1943). In both of these cases the Commission treated all income from gasoline extraction operations in excess of a 6½% return on the gasoline plant investment as a credit to gas operating expenses. If this method were followed with respect to oil, there would be many instances in which the gas would have no cost.

chase Contract." Under this type of contract the gatherer purchases the casinghead gas, returns to the producer all of the residue gas required by him for lease purposes, sells any remaining surplus residue gas and pays the producer a sum composed of (*1*) a payment based upon the liquid content of the casinghead gas, and (*2*) a portion (now usually more than 60%) of all the proceeds received by the gatherer from the sale of the surplus residue gas. Thus the price received by the gatherer for the residue gas is a fundamental part of the function of gathering and the producer has an even greater interest in that price than the gatherer.

D. ***The independent producer and gatherer would be subjected to all of the burdens of regulation but would receive none of the benefits from regulation.***

It is hardly to be expected that Congress intended to discriminate against independent producers and gatherers. On the contrary, the legislative history of the Act shows the desire of Congresss to lend assistance to them. But if the Act is construed as not exempting their sales from regulation, the curious result will follow that the independent producer and gatherer is subjected to all of the burdens of regulation but receives none of the benefits from regulation.

Although the primary purpose of the Act is the regulation of rates of natural gas companies, there are two sections in the Act which provide the natural gas companies with substantial benefits. Those sections are 7(c)[9] and 7(h).[10]

Section 7(c) prohibits operation as a natural gas company without a certificate of public convenience and necessity from the Commission. These certificates serve to pro-

9. 15 USC Sec. 717f(c).

10. 15 USC Sec. 717f(h).

vide stability to the natural gas company and permit it to obtain long-term financing at reasonable interest rates by assuring it of a limited monopoly in the area it serves. No such stability can be provided for independent producers and gatherers. The exploration for, discovery of and production of oil and gas is one of the most competitive businesses in existence today.[11] It would be impossible for the Commission to assure the independent producer and gatherer any sort of monopoly, limited or otherwise, in those activities which form the very substance of the independent producer and gatherer's existence. Even if a certificate is granted for a particular sale, the independent producer and gatherer has no freedom from competition and no assurance that his business will continue longer than the life of the particular field from which he may be producing, which in many cases may be all too short.

Probably the most striking example of benefits granted to transmission companies but which would be denied to the independent producer and gatherer is the privilege, under Section 7 (h) of the Act, of condemning the necessary right of way for pipe lines. The purchase of right of way is just as important to the gatherer as it is to the transporter. Without right of way, neither can construct the lines which are essential to operation. But this section would not be applicable to the gatherer, even if his rates were regulated. *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 508 (1949).[12] The gatherer must continue to obtain his rights of way in a competitive mar-

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11. There are several thousand producers and gatherers of natural gas. Natural Gas Investigation, Federal Power Commission, Docket G-580, Report of Commissioners Smith and Wimberly, United States Government Printing Office (1948), p. 194.

12. This Court there said: "• • • Sections 4, 5, and 7 do not concern the producing and gathering of natural gas; • • •"

lot. If a particular landowner refuses to sell, the gatherer is at his mercy.

II.

Without Regulation, Natural Gas Has Been Made Available in Increased Quantities at Prices Cheaper Than Any Other Fuel; Regulation Will Reverse the Trend.

Independent producers and gatherers' rates have never been regulated. But under a free competitive market, reserves and production of gas have increased substantially and prices, even when the gas is transported across many states, remain well below the cost of other fuels. Those conditions will not continue if independent producers and gatherers' rates are regulated.

Since 1925, proved reserves of natural gas have increased from 23 trillion cubic feet to 156 trillion cubic feet in 1945.[13] By the end of 1953, it was estimated that proved reserves equaled about 205 trillion cubic feet.[14] Even though production has risen substantially, new discoveries more than keep pace with uses.[15] Natural gas now supplies more than one-fifth of the nation's total energy consumption.[16]

As compared to coal and fuel oil, natural gas is a bargain fuel with a substantial price advantage over either of the other competing fuels. Measured by the comparative cost of natural gas at the wellhead and coal at the mine, the price of bituminous coal in 1950 was nearly three

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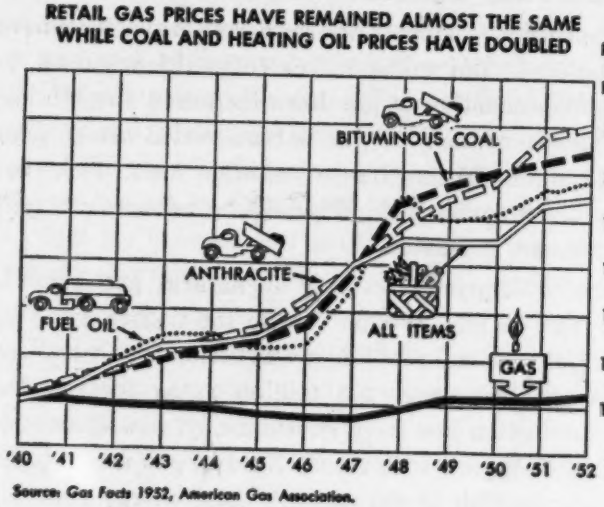
13. *Gas Facts, 1952 Data*, American Gas Association, Bureau of Statistics, Table 7, p. 24.
14. World Oil, February 15, 1954, p. 163.
15. *Ibid.*
16. Stockton, Henshaw & Graves, Economics of *Natural Gas in Texas*, Bureau of Business Research, University of Texas (1952), p. 252.

times,[17] and that of anthracite coal nearly five and one-half times,[18] the equivalent price of natural gas at the well-head

But it is the ultimate price to the consumer which shows the most significant differences. Based upon the average for the 1935-39 pre-war period, the average retail price



Reproduced from *Gas Facts, 1952 Data*, American Gas Association, Bureau of Statistics, page 257.

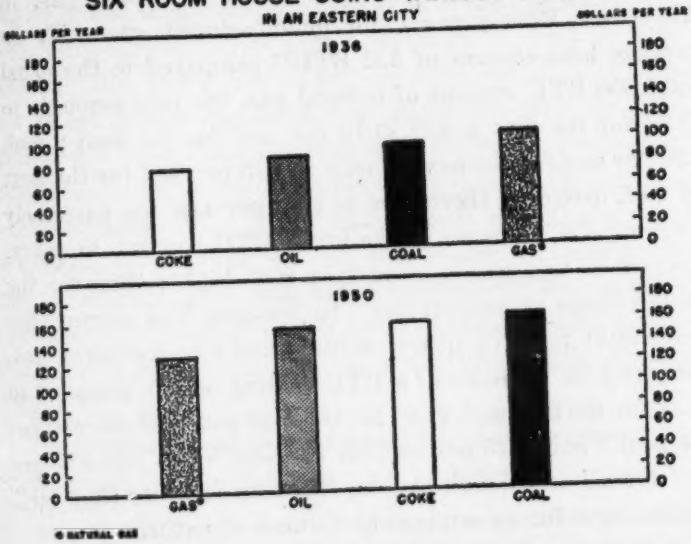
of bituminous coal in 1950 had increased by 91.4%; anthracite increased 90.1%; and No. 1 and No. 2 fuel oils advanced 90.7%; and manufactured gas increased 9.7%. On the other hand, the average price of natural gas to domestic and commercial consumers had declined 7.0%.[19] Since 1948, for every dollar that the price of coal per ton has increased,

17. *Ibid.*, p. 265.
18. *Ibid.*, p. 268.
19. *Ibid.*, p. 279.

comparably stable natural gas prices have gained a relative advantage of 4c per thousand cubic feet.[20]

To the homeowner using natural gas for heating, natural gas has come to be the cheapest fuel[21] in many locations in addition to being the cleanest and most desirable. "It is really small wonder that people want gas when it is the ideal fuel selling way below its competitive price."[22] Moreover, the cheapness of natural gas may benefit home-

CHANGES IN COST OF HEATING AN AVERAGE SIX ROOM HOUSE USING VARIOUS FUELS IN AN EASTERN CITY



Reproduced from: Stockton, Henshaw & Graves, *Economics of Natural Gas in Texas,* Bureau of Business Research, University of Texas (1952), page 283.

owners in the cost of other utilities as well. For a group of

20. *Ibid.*, p. 271.
21. *Ibid.*, p. 282.
22. *Ibid.*, p. 284.

electric utilities using coal as boiler fuel, fuel costs per thousand kilowatt hours rose 71% from 1939 to 1947. For a group of utilities using natural gas, unit fuel costs decreased 9%.[23]

One other comparison is appropriate. So far, we have compared natural gas with coal and fuel oil, but there is a difference between these fuels. Coal and fuel oil are at a disadvantage from the standpoint of convenience. How does natural gas compare in cost with manufactured gas?

The answer is even more favorable to natural gas. In Allentown, Pennsylvania, for manufactured gas with an average heat content of 522 BTU[24] compared to the usual 950-1,050 BTU content of natural gas, the rate amounts to $1.91 for the first mcf,[25] $1.10 per mcf for the next 2 mcf, $.90 per mcf for the next 7 mcf and $.75 per mcf for the next 24 mcf, declining thereafter to $.60 per mcf for extremely large uses.[26] Because of the lower BTU content, however, the cost of this gas is more than 80% higher than for the same volume of natural gas. In Newark, New Jersey, the residential rate for mixed natural and manufactured gas, computed on the basis of a BTU content of 525, amounts to $1.66 for the first mcf, $1.01 for the next mcf, $.95 per mcf for the next 2 mcf, $.75 per mcf for the next 5 mcf and $.60 per mcf for all additional. Again, this rate is more than 80% higher than for an equivalent volume of natural gas.

It is not difficult to see why the demand for natural gas

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23. *Ibid.*, p. 255.

24. British Thermal Units per cubic foot.

25. Thousand cubic feet.

26. Brown's Directory of American Gas Companies, 1953-1954 Edition, p. 309.

remains insatiable.[27] But unless there is a continued incentive for exploration, natural gas will be in short supply by 1975.[28] And if independent producers and gatherers' prices are regulated, much of the gas which is discovered and produced in the meantime will not be made available to interstate pipe lines.[29] The result will be a substantial drop in the volume of gas which is available to consumers, since the transmission companies have demonstrated that, under regulation, they cannot and will not develop their own gas supplies. Since 1940, eight major interstate pipe line companies, which then produced over 47% of the gas which they sold, have allowed their own production to drop to 30%. Substantially every major system constructed since 1940 has relied almost exclusively on purchased gas. In 1951, these eight pipe lines, together with the seven major pipe lines constructed since 1940, produced only 18.5% of their total requirements. As Commissioner Smith stated, it is difficult to "believe that all this is due to coincidence, free from connection with the Commission's rate-making methods." Concurring Opinion of Commissioner Smith, *Re Northern Natural Gas Co.*, 94 PUR (NS) 485, 511-512 (1952).[30]

Even such gas as would be sold by producers and gatherers would for the most part be high-cost gas, since the

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27. *Natural Gas—Woosh!* Fortune, December, 1949, p. 107; *Economics of a Growth Industry*, Business Week, September 26, 1953, pp. 85, 94; *The Outlook for Energy Sources*, Vol. III, pp. 15, 19, Resources for Freedom, United States Government Printing Office, 1952.

28. *The Outlook for Energy Resources*, Vol. III, p. 21, United States Government Printing Office, 1952.

29. Head, *Federal Control Can Flow Through Gas Lines*, The Petroleum Engineer, September, 1953, pp. A-37, A-51; *Economics of a Growth Industry*, Business Week, September 26, 1953, pp. 85, 98; Comment, 59 Yale L. J. 1468, 1490.

30. The majority opinion in this case indicates that the transmission companies actually may be inclined to dispose of such gas reserves as they now own. (94 PUR (NS) at 501-503.)

producer and gatherer would try to dispose of his lower-cost gas into local markets where he could get a competitive price, and sell only his high-cost gas into regulated markets, where cost would be an important factor in determining his rates. The result to the consumer would be the loss of the bargain which he now has. Not only that, he would be fortunate if he could get gas at all, even if he were willing to pay a premium price for it.

We feel certain that Congress never intended such a result as this to follow from the passage of the Natural Gas Act.

III.

Regulation of the Independent Producer and Gatherer Is Uncalled For.

During the various stages of this proceeding the contention was advanced that unless independent producers and gatherers of gas are regulated by the Commission, the consumer will be at the mercy of the independent producer and gatherer and that regulation is therefore necessary to close the "gap" in gas regulation. That argument is not sound in law or in fact. We leave the legal argument to the parties, but we do wish to point out the relevant facts.

This Court, in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U. S. 179, 187 (1950), pointed out that "• • • the wellhead price of gas is but a fraction of the price paid by domestic consumers at the burner-tip, so that the field price • • • may have little or no effect on the domestic delivered price." This statement gives emphasis to the fact that regulation of independent producers and gatherers will be detrimental to the consumer, as well as to the producer and gatherer.[31]

31. As was pointed out, *supra*, pp. 18-19.

Any comparison of the field price with the ultimate price to the consumer shows how small a part of the total bill is attributable to the field price, as this Court has recognized in the *Cities Service* case.

The field price is multiplied many times in the processes of interstate transportation and local distribution because of the enormity of these activities and the substantial costs necessarily involved therein. As a result, the elimination of the field price, *in toto*, would not greatly reduce the price to the consumer.

This is not to suggest or imply that consumers are paying excessive prices for gas service or that pipe line and local distributing companies are exacting excessive charges. The rates or charges of pipe line companies are fixed by the Federal Power Commission and those of distributing companies by state or local regulatory authority. In each instance the rates and charges are determined on cost of service plus a fixed rate on the investment or value of the facilities devoted to service. The cost of the gas itself is only one of the many factors involved in cost of service, such as cost of facilities, labor, and taxes.

It is impossible for the consumer to be exploited by the independent producer and gatherer as has been alleged. If, at some unforeseeable point in the future, field prices should take a drastic upturn, the consumer is still not at the mercy of the independent producer and gatherer. Pipe lines presently in operation have reserves of gas under long term contracts at specified prices. Before new lines can be constructed, or before older lines can take gas from new fields, certificates of public convenience and necessity must be obtained from the Federal Power Commission. Under Sec-

tion 7(e) of the Act[32] the Commission has ample power to protect the consumer by refusing the certificate if the price of gas is too high, or to condition its issuance upon a reduction in the price.

In certain instances field prices are a somewhat greater factor in rate increase applications than in others. Some consumers have for many years been enjoying the benefits of contracts for the supply of gas made twenty or more years ago, when general economic conditions were considerably below those of the present time and when gas was a distress product and could be purchased at almost any price that a buyer might choose to name.

Many of such contracts are for the life of the leases, but where the contracts specified particular terms of years the terms are gradually expiring. As the contracts are renewed or new sources of supply are obtained, the contracts, of course, specify present-day prices. Those prices are in line with the general trend of present-day costs and are made with the realization that gas is a valuable, not a distress, product. Any argument that prices under gas supply contracts entered into recently are higher than previous contract prices ignores the fact that no commodity, including bread, can be purchased today for the same price that it could have been purchased for twenty or more years ago.

As a matter of fact, most of the consumers served by the natural gas companies who are today making new gas-supply contracts in substitution of old expiring long-term contracts have been enjoying a price advantage not realized by other consumers of natural gas or other fuels. That advantage was made possible only because natural gas is one of the few commodities which has generally been sold under

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32. 15 USC, Sec. 717f(e).

contracts extending for two or more decades. On the contrary, if gas were sold on a short-term basis, as are most other commodities, that advantage could not have existed. Under the old contracts the producer has been forced to assume in the main the burden of the tremendous increase in costs which has occurred in the last fifteen years. But the fact that these extra benefits are now beginning to expire by their own terms does not place the consumers affected at a disadvantage. Rather, if those consumers were placed on a par with other gas consumers using gas purchased at present-day prices they would still be furnished gas cheaper than any other fuel.

The facts here show no need for correction by way of regulation of independent producers and gatherers. Certainly the mere fact that any given industry is unregulated should not of itself call for immediate action, legislative or judicial, to regulate it. There is no more reason to regulate the field price of gas than there is to regulate coal, wheat, or any of the other commodities which we purchase daily. We have shown that the cost of the steel and the labor which go into the construction and operation of the transmission and distribution systems amount to a greater share of the total delivered cost of natural gas than the field price. No one would seriously consider the regulation of these items.

Conclusion.

We believe the facts stated above confirm the conclusion to be drawn from the legislative history of the Natural Gas Act—that Congress did not intend to regulate sales of gas by independent producers and gatherers. The business of the independent producer and gatherer is not one which readily lends itself to utility-type regulation, and the prob-

lems which would arise from an attempt to regulate such an industry are so complex and far-reaching in result that Congress would not have undertaken such a task without a thorough review of all of the aspects of such regulation, which the legislative history shows that it did not do. Further, these facts show no need for regulation of independent producers and gatherers and no occasion for this Court to construe the Natural Gas Act in a way to correct some supposed evil. Thus far, the independent producer and gatherer, under free competition, has made large volumes of gas available to the consumer at prices well below that of any other fuel. The imposition of rate regulation upon the independent producer and gatherer would not correct any harm; it would only upset a balance which is presently in the consumers' favor. For these reasons, we urge the Court to reverse the decision of the United States Court of Appeals for the District of Columbia Circuit and affirm the decision of the Federal Power Commission.

Respectfully submitted,

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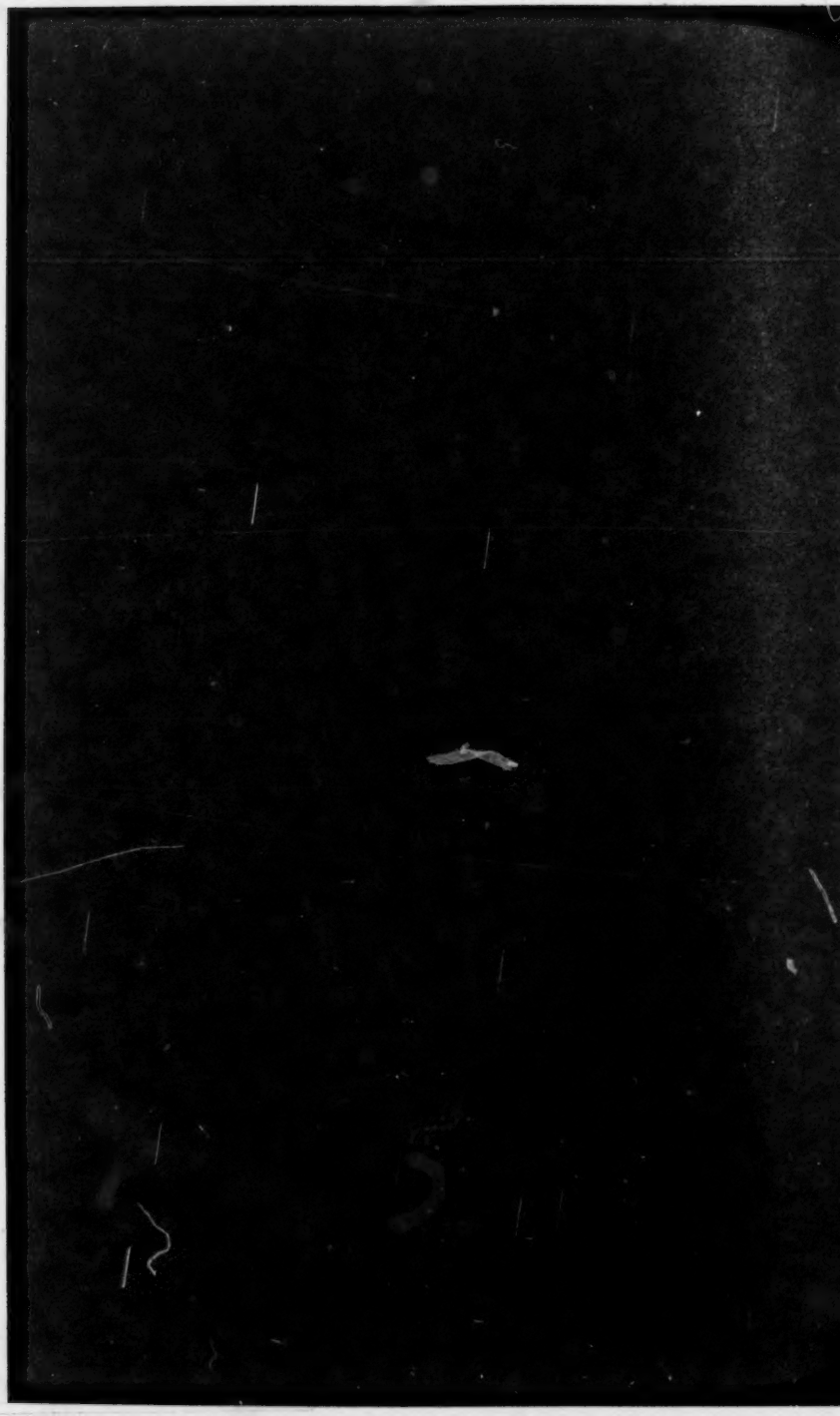

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Nos. 280, 281

SUPREME COURT OF THE UNITED STATES

October Term, 1953

PHILLIPS PETROLEUM COMPANY, Petitioner,

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, a municipal corporation; COUNTY OF WAYNE, MICHIGAN; and THE FEDERAL POWER COMMISSION, Respondents.

STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; and STATE OF NEW MEXICO and OIL CONSERVATION COMMISSION OF NEW MEXICO,
Petitioners,

v.

STATE OF WISCONSIN and PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; and THE FEDERAL POWER COMMISSION.
Respondents.

On Writs of Certiorari to The Court of Appeals for the District of Columbia Circuit

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MOTION FOR LEAVE TO FILE BRIEF AMICI CURIAE

To the Honorable, The Chief Justice and the Associate Justices of the Supreme Court of the United States:

Now come B. J. Essex and O. C. Harper, and respectfully move this Court, pursuant to Rule 27, Paragraph 9 of the rules of this Court, for leave to file the accompanying brief in these cases as amici curiae. The interest of the above named producers and their reasons for asking for leave to file a brief amici curiae are set forth below.

B. J. Essex and O. C. Harper own and operate five wells in the State of Texas from which oil and gas are produced and sold. Such sales are all arms-length transactions. They have no interest in, nor are they in any way affiliated or connected with any gas transmission company.

These producers have never considered their operations subject to regulation by the Federal Power Commission and have been advised by their attorney, who is filing this brief and who has represented them for more than fifteen years, that they are expressly excluded from the provisions of the Natural Gas Act.[1] The producers are alarmed at the statement in the decision of the Court below that:

> "The Supreme Court has repeatedly upheld the Commission's authority under the Natural Gas Act to regulate the rates at which a producer and gatherer of natural gas sells it, after producing

[1] *52 Stat. 833, 15 USCA 717 to 717(w), Inc.*

and gathering it, to pipeline companies for resale in other states."[2]

This broad statement creates confusion and doubt as to the status of these producers and the many thousands of other independent producers of oil and gas under the Natural Gas Act. If not corrected by this Court, the statement quoted above will seriously affect and disrupt further efforts of independent producers to explore for and develop additional reserves of oil and gas so vitally essential to the welfare of the country.

These producers are vitally interested in these cases and respectfully request the Court to consider the attached brief for a clarification and correction of the decision below, especially insofar as it purports to extend the "Commission's authority under the Natural Gas Act to regulate the rates at which a producer and gatherer of natural gas sells it, after producing and gathering it, to pipeline companies for resale in other states."

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[2]State of *Wisconsin* v. *Federal Power Commission*, 205 F. 2d at Page 709.

Respectfully submitted,

B. J. Essex,
O. C. Harper,
Amici Curiae

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SUPREME COURT OF THE UNITED STATES

October Term, 1953

No. 280

PHILLIPS PETROLEUM COMPANY, Petitioner,

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, a municipal corporation; COUNTY OF WAYNE, MICHIGAN; and THE FEDERAL POWER COMMISSION, Respondents.

No. 281

STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; and STATE OF NEW MEXICO and OIL CONSERVATION COMMISSION OF NEW MEXICO, Petitioners,

v.

STATE OF WISCONSIN and PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; and THE FEDERAL POWER COMMISSION, Respondents.

On Writs of Certiorari to The Court of Appeals for the District of Columbia Circuit

BRIEF AMICI CURIAE OF B. J. ESSEX AND O. C. HARPER

B. J. Essex and O. C. Harper, amici curiae, own and operate five wells in the State of Texas from which oil and gas are produced. The oil produced from these wells is sold in the field to one company. The gas is produced and sold in an arms-length transaction to another company. These producers do not operate, have no interest in, and are in no way affiliated or connected with, the company to which the gas is sold.

These producers, like thousands of other such producers, have never considered their operations subject to regulation by the Federal Power Commission.

A "producer and gatherer" of natural gas is a broad term. It would include thousands of independent producers and gatherers of natural gas. An independent producer and gatherer of natural gas is one who is not himself an interstate transporter of natural gas; is not a subsidiary of or owned or controlled by an interstate transporter of natural gas; does not own or control an interstate transporter of natural gas; and is not affiliated or associated in any way with an interstate transporter of natural gas.

To alleviate the industry-wide repercussions which the erroneous statement in the decision of the court below will precipitate, this Court should expressly reject that decision, especially insofar as it purports to extend the Commission's "authority under the Natural Gas Act to regulate the rates at which a producer and gatherer of natural gas sells it, after producing and

gathering it, to pipeline companies for resale in other states."

I.

CONGRESS DID NOT INTEND, AND THIS COURT HAS NOT HELD, THE ACT TO AUTHORIZE THE FEDERAL POWER COMMISSION "TO REGULATE THE RATE AT WHICH A PRODUCER AND GATHERER OF NATURAL GAS SELLS IT, AFTER PRODUCING AND GATHERING IT, TO PIPELINES FOR RESALE IN OTHER STATES."

Senator Wheeler who sponsored the bill in the Senate said:

> " 'It does not attempt to regulate the producers of natural gas or the distributors of natural gas; only those who sell it wholesale in interstate commerce.' 81 Cong. Rec. p. 9312." (*Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 US 581, 89 L.Ed. 1206.)

> "In the hearings upon the earlier bill, Mr. DeVane, Solicitor of the Federal Power Commission, stated: 'Par. 1(b) also provides that the Commission shall have no jurisdiction over the gathering or gathering rates for natural gas.' 'Gathering rates,' he explained as 'The rates that are paid in the gathering field.' He further stated, 'There is no control of the gathering rate; the Commission would not have jurisdiction. That price is fixed by competitive conditions that exist in the field.'

He said that the Commission does not have any power over the price 'that is paid to the gatherer, to the man that produces it; that is binding if the transaction is at arm's length. If the transaction is not at arm's length, of course, its reasonableness may be inquired into, under the decisions of the Supreme Court.' There is nothing in the subsequent Legislative history to indicate that this understanding with respect to par. 1(b) in the earlier Act was changed at a later stage, and par. 1(b) as finally adopted indicates no such change. Hearings on HR 11662, 74th Cong. 2d Sess pp. 28, 42, 43." (*Colorado Interstate Gas Co.* v. *Federal Power Commission, supra.*)

Or, as this Court said in the case of *Illinois Natural Gas Company* v. *Central Illinois Public Service Company*, 314 US 498, 86 L. Ed. 371:

"An avowed purpose of the Natural Gas Act of June 21, 1938, was to afford, through the exercise of the national power over interstate commerce, an agency for regulating the wholesale distribution to public service companies of natural gas moving interstate, which this Court had declared to be interstate commerce not subject to certain types of state regulation, H.R. No. 709, Committee on Interstate and Foreign Commerce, 75th Cong. 1st Sess. April 28, 1937. By its enactment Congress undertook to regulate a defined class of natural gas distribution without the necessity, where Congress has not acted, of drawing the precise line between state and federal power by the litigation of particular cases."

The basic purpose of the Natural Gas Bill was to occupy the field in which the Supreme Court had held the states might not act. H. Rep. No. 709, 75th Congress 1st Sess. p. 2. "In accomplishing that purpose the bill was designed to take 'no authority from State commissions' and was 'so drawn as to complement and in no manner usurp State regulatory authority.' Id. p. 2. And the Federal Power Commission was given no authority over the 'production or gathering of natural gas.' Sec. 1(b)." *Federal Power Com.* v. *Hope Natural Gas Co.*, 320 U.S. 591, 610, 88 L.Ed. 333, 349.

"The primary aim of * * * (the Natural Gas Act) was to protect consumers against exploitation at the hands of natural gas companies. Due to the hiatus in regulation which resulted from the Kansas Natural Gas Co. Case and related decisions, state commissions found it difficult or impossible to discover what it cost *interstate pipeline companies* to deliver gas within the consuming states; thus they were thwarted in local regulation." *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U.S. 591, 88 L.Ed. 333. (Emphasis added)

The hiatus which Congress intended to close by the Natural Gas Act was that created by "prior constitutional decisions" not what the Supreme Court has "since decided."[3]

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[3]*Federal Power Commission* v. *East Ohio Gas Co.*, 338 US 464, 94 L.Ed. 268.

In those prior constitutional decisions this court held that a state has jurisdiction over a company's local distribution of gas purchased from a company transporting it into the state, *East Ohio Gas Co.* v. *Tax Commission*, 283 U.S. 465, 75 L.Ed. 1171, and over a company which distributes locally to consumers gas which it transports from another state, *Pennsylvania Gas Co.* v. *Public Service Commission*, 252 US 23, 64 L.Ed. 434, even though the consumers be industrial users of gas, *Southern Natural Gas Corp.* v. *Alabama*, 301 US 148, 81 L.Ed. 970; that a state had *no* jurisdiction over "the transportation of gas through pipelines from one state to another" nor the price charged therefor to local distributors, *Public Utilities Commission* v. *Landon*, 249 US 236, 63 L.Ed. 577, where "there is no relation of agency between the supply company and the distributing companies or other relation except that of seller and buyer," *Missouri* v. *Kansas Natural Gas Co.*, 265 US 298, 68 L.Ed. 1207.

These cases were not concerned with an arms-length sale by a producer and gatherer to a pipeline company in which the gatherer and producer had no interest and with which the producer and gatherer was not affiliated or connected.

The Natural Gas Act was designed and passed, as the cases show, to control those companies which transported and sold gas at wholesale in interstate commerce. It was aimed at natural gas companies. It

was *not* aimed at independent producers and gatherers of natural gas who sold their gas to interstate transporters of gas.

That is why the Natural Gas Act exempts "any other transportation or sale of natural gas" excepting transportation in interstate commerce and sale in interstate commerce. That is why the Act does not apply "to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas."

The Court below states that this Court "has repeatedly upheld the Commission's authority under the Natural Gas Act to regulate the rates at which a producer and gatherer of natural gas sells it, after producing and gathering it, to pipeline companies for resale in other states." There is no decision by the Supreme Court of the United States to sustain this statement.

The Court herein below cites *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 US 581, 89 L.Ed. 1206, but this case does not support the statement. The sales in question in that case were not sales by an independent producer of gas to a natural gas company. The sales in question in that case were sales by Canadian River Gas Company, a natural gas company within the meaning of the Act, to Colorado Interstate Gas Company, *an affiliate*, admittedly a natural gas company, and resales by Colorado Inter-

state Gas Company to distributing companies, and to Colorado-Wyoming Gas Company for resale by it to distributing companies. This case did not involve sales by an independent producer of gas to a natural gas company.

The Court of Appeals next cites *Interstate Natural Gas Company* v. *Federal Power Commission*, 331 US 682, 91 L.Ed. 1742. In that case this Court held that a *natural gas company* which produces, gathers and transports gas in its own pipeline and thereafter sells it to an *affiliated* natural gas company and two other natural gas companies *not at arms length* is subject to the Natural Gas Act. This case was not one involving sales by an independent producer of gas to a natural gas company.

The Court of Appeals next cites *Peoples Natural Gas Company* v. *Federal Power Commission*, 127 Fed. 2nd 153, Cert. Den., 316 US 700, 89 L.Ed. 1769. In that case the same Court herein below there held that where a producer sells gas to an *affiliated* transportation company for *immediate interstate* transportation, sale, and resale for public consumption, it is within the jurisdiction of the Federal Power Commission. This case did not involve sales by an independent producer and gatherer to a transporter in which the producer and gatherer had no interest and with which it was not affiliated or connected.

The Court of Appeals cites no case where the Supreme Court has held that a sale by an independent

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producer and gatherer of gas to a natural gas company in which it has no interest and with which it is not affiliated or connected is subject to regulation by the Federal Power Commission under the Natural Gas Act. We have found no such opinion by the Supreme Court. We think there is none.

II.

THE LONG ADMINISTRATIVE INTERPRETATION OF THE ACT BY THE COMMISSION IS INCONSISTENT WITH THE PROPOSITION THAT THE COMMISSION HAS "AUTHORITY UNDER THE NATURAL GAS ACT TO REGULATE THE RATES AT WHICH A PRODUCER AND GATHERER OF NATURAL GAS SELLS IT, AFTER PRODUCING AND GATHERING IT, TO PIPELINE COMPANIES FOR RESALE IN OTHER STATES."

Numerous reports, orders and decisions of the Federal Power Commission issued since the enactment of the Natural Gas Act, upon which operators and producers throughout the country have relied, are to the effect that:

> "All activities, including sales made at arms' length, by those who only produce, gather or process natural gas prior to its transportation or sale by others for resale in interstate commerce are exempt from the provisions of the Natural Gas Act." Federal Power Commission Release No. 3257 (G-1016), Docket No. G-580, March 7, 1947.

and that:

> "Where a person not otherwise subject to the jurisdiction of the Commission, is engaged in production or gathering of natural gas exclusive of its transportation in interstate commerce and makes arm's-length sales and deliveries of natural gas in interstate commerce as an incident to or upon completion of that person's production or gathering, the provisions of the Natural Gas Act do not apply." F.P.C. Release No. 3348 (G-1076) Docket No. G-352, Opinion No. 149, May 22, 1947.

Independent producers and gatherers of natural gas have applied for and received Rulings from the Commission that they are exempt from the Act.

In the matter of R. J. and D. E. Whelan, Docket No. G-899, May 20, 1947, the Commission issued such a ruling on finding that the partnership proposed to sell gas to Texas Eastern Transmission Corporation by means of a gathering line connected to Texas Eastern's pipeline after it produced, gathered and dehydrated such gas; that the partnership was not in any way affiliated with anyone engaged in production, gathering or transmission operations, and the contemplated sale would be an arm's length transaction; and that the partnership would not be engaged in the transportation of natural gas in interstate commerce in the delivery of gas to Texas Eastern under the proposed contract.

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In the Matter of Columbian Fuel Corporation, 2 F.P.C. 200, decided in June, 1940, sales by an independent producer to a natural gas company were involved. The Commission held, in declining to assume jurisdiction that:

> "* * * it was not the intention of Congress to subject to regulation under the Natural Gas Act all persons whose only sales of natural gas in interstate commerce, as in this case, are made as an incident to and immediately upon completion of such person's production and gathering of said natural gas and who are not otherwise subject to the jurisdiction of this Commission."

The Commission further held at p. 207:

> "The companies to be subjected to regulation were conceived of as 'pipe line' companies, and it was assumed that production and gathering would enter the field of regulation only to the extent that the 'pipe line' companies, either directly or through affiliates, controlled the production or gathering of the gas so transported."

The Federal Power Commission has repeatedly said that the mere fact that an independent producer of gas sells that gas to a natural gas company does not make the independent producer a natural gas company. For more than sixteen years, ever since the act was adopted in 1938, the Commission has construed the Act as not applying to sales by independent producers of natural gas.

"The construction given to a Statute by those charged with the duty of executing it is always entitled to the most respectful consideration and ought not to be overruled without cogent reasons." *United States* v. *Andrew M. Moore*, 95 US 760, 24 L.Ed. 588.

III.

INDUSTRY-WIDE CHAOS WOULD RESULT FROM THE COMMISSION'S ASSERTTION OF "AUTHORITY UNDER THE NATURAL GAS ACT TO REGULATE THE RATES AT WHICH A PRODUCER AND GATHERER OF NATURAL GAS SELLS IT, AFTER PRODUCING AND GATHERING IT, TO PIPELINE COMPANIES FOR RESALE IN OTHER STATES."

Independent producers, such as amici curiae, constitute a large part of the great American oil industry. These independent producers have been able to meet the oil and gas demands of an ever increasing peacetime economy and all wartime requirements under well administered State oil and gas conservation laws.

They are now faced with a conflict between their operations under regulations of the State Oil and Gas Conservation laws and the decision of the court below that the Commission has authority "under the Natural Gas Act to regulate the rates at which a producer and gatherer of natural gas sells it, after producing and

gathering it, to pipeline companies for resale in other states."

We cite one example. The Railroad Commission of Texas, and perhaps other state conservation agencies, prohibits the flaring of casinghead gas produced with the oil. If producers comply with the Railroad Commission's non-flaring orders by gathering and selling the gas to pipeline companies which resell it in other states, then, under the statement of the Court below herein complained of, such producers would come under the provisions of the Natural Gas Act and be subject to regulation by the Federal Power Commission. They are faced with a conflict between regulation by the State and regulation by the Federal Power Commission.

Several states and their conservation commissions, including Texas, have strongly resisted the attempt of the court below to impress upon the Commission the power "to regulate the rates at which a producer and gatherer of natural gas sells it, after producing and gathering it, to pipeline companies for resale in other states."

The opposition of the state affected is a significant factor to be considered, and "where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal

Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach." *Interstate Natural Gas Company* v. *Federal Power Commission*, 331 US 682, 91 L.Ed. 1742.

Conclusion

The statement of the Court herein below is not supported by a single decision of the United States Supreme Court; it is contrary to the plain language of the Natural Gas Act and to the Departmental construction placed thereon by the Federal Power Commission; and would deny to the states the right to administer the conservation statutes.

Amici curiae herein merely sell the gas produced and gathered from their wells to a pipeline company in which they have no interest and with which they have no affiliation or connection. They respectfully pray this Court to make clear that the Commission does *not* have authority "under the Natural Gas Act to regulate the rates at which a producer and gatherer of natural gas sells it, after producing and gathering it, to pipeline companies for resale in other states."

Respectfully submitted,

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AUG 20 1953
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Supreme Court of the United States

OCTOBER TERM, 1953

STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; AND STATE OF NEW MEXICO AND OIL CONSERVATION COMMISSION OF NEW MEXICO, *Petitioners,*

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; AND THE FEDERAL POWER COMMISSION, *Respondents.*

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

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Supreme Court of the United States

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No. .....

STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; AND STATE OF NEW MEXICO AND OIL CONSERVATION COMMISSION OF NEW MEXICO, *Petitioners,*

v.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; AND THE FEDERAL POWER COMMISSION, *Respondents.*

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

Petitioners, interveners in the Court below, pray that a Writ of Certiorari issue to review the decision of the United States Court of Appeals for the District of Columbia Circuit entered on May 22, 1953, in the cases numbered 11247, 11241, 11242, 11245 and 11252 on the Docket of said Court.

OPINION BELOW

The opinion of the Court of Appeals (R. 1857-1873) is not yet reported. The findings and opinion of the Federal Power Commission appear in the record at pp. 1682-1835.

JURISDICTION TO REVIEW

Jurisdiction of this Court is invoked under Title 15, United States Code, Section 717r(b), and Title 28, United States Code, Sections 1254(1) and 2101. The judgment of the United States Court of Appeals for the District of Columbia Circuit was entered on May 22, 1953 (R. 1855).

STATUTE INVOLVED

The statute involved is the Natural Gas Act (Act of June 21, 1938, Ch. 556, 52 Stat. 821, as amended by Act of February 7, 1942, Ch. 49, 46 Stat. 83, and Act of July 25, 1947, Ch. 333, 61 Stat. 459, 15 U.S.C. Sec. 717, et seq.). The pertinent provisions of the Act are printed as Appendix A to this Petition.

SUMMARY STATEMENT OF THE MATTER INVOLVED

By order dated August 16, 1951, the Federal Power Commission (Commission) determined that Phillips is not a natural gas company within the meaning of the Natural Gas Act and that the Commission has no jurisdiction to regulate its rates (R. 1682-1755). This order resulted from an investigation upon the Commission's own motion to determine (1) whether Phillips is a "natural gas company" within the meaning of the Act and (2) if so, whether any of its rates subject to the jurisdiction of the Commission are unjust or unreasonable. By order dated April 16, 1951, the

Commission limited the investigation to the single question of whether Phillips is a "natural gas company" (R. 1671-1680).

Because this investigation threatened to bring sales by independent producers and gatherers of natural gas in interstate commerce for resale under regulation by the Commission, which would result in serious conflict or interference with the exclusive conservation powers and duties of producing states, Petitioners intervened in the proceeding before the Commission and the Court below, urging that such sales are exempt under Section 1(b) of the Act.

Petitioners are vested, under the laws of the States of Texas,[1] Oklahoma[2] and New Mexico[3] with the jurisdiction, duty and authority to administer and enforce the laws of their respective States with respect to the development, production, gathering, conservation, marketing and utilization of the oil and gas resources of the state. Petitioners' statutes and regulations constitute a comprehensive program of regulation of the production and gathering of natural gas, including the unitization of fields, proration, ratable taking, well spacing, drilling of wells, and all matters looking toward the conservation and greatest ultimate recovery of natural gas. Also included is the regulation of the price of gas where such regulation is conducive to the furtherance of State policies and programs with respect to conservation.

Likewise urging that regulation of Phillips' rates would be inconsistent with and would seriously inter-

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[1] Title 102, Revised Civil Stat. of Texas, 1925 (as amended).

[2] Title 52, Okla. Stat., 1951.

[3] Chapter 69, New Mexico Stat., 1941.

fere with their regulation, the producing states of Arkansas, Kansas, Louisiana and Mississippi also intervened in the proceeding before the Commission in opposition to the Commission's jurisdiction. The Commission, however, excluded the evidence offered by those states upon the ground that no gas involved in this particular proceeding was produced in those states. Intervening in support of the Commission's jurisdiction were, among others, the five petitioners in the court below, *i.e.*, the State of Wisconsin, the Public Service Commission of Wisconsin, City of Detroit, Michigan, City of Kansas City, Missouri, City of Milwaukee, Wisconsin, and County of Wayne, Michigan.

The Commission's investigation focused on Phillips' sales of natural gas to five natural gas companies, which companies are subject to the jurisdiction of the Commission under the Natural Gas Act, *i.e.*, Michigan-Wisconsin Pipe Line Company, Panhandle Eastern Pipe Line Company, Cities Service Gas Company, Independent Natural Gas Company, and El Paso Natural Gas Company. All of the gas so sold by Phillips is produced in part and purchased in part from other producers and moved through one of several systems of pipe lines, known in the industry as "gathering lines" (R. 365-374), to one of several gasoline plants, all located in the particular field where the gas is produced (R. 1215, 350, Exhibit 82).

At these gasoline plants Phillips processes the gas for the extraction of the liquid hydrocarbons and for the removal of impurities to make the gas salable. From the record, it is found that approximately 50% of the gas processed by Phillips is casinghead gas, or gas produced from oil wells in conjunction with

oil.[4] The production of oil is the controlling element in the production of this gas (R. 322). Most of such gas is not produced by Phillips but is purchased on a form of contract which expressly makes the purchase of casinghead gas subservient to the production of oil and requires Phillips to return the residue gas to the producer for use in lease operations. Under these contracts, Phillips is permitted to sell only that part of the gas which is surplus, or not returned to the oil producers (R. 1158-1177, 339). The price which Phillips pays under these contracts depends in part upon the gasoline content and in part upon the price which Phillips receives for the sale of the residue gas (R. 361-362). After processing, the residue gas which is available for sale is then delivered to various purchasers and substantial quantities are used by Phillips, but predominantly the residue is delivered to the purchasing pipe line companies at the exhaust of the gasoline plants (R. 282, 292-293, 628, 1216-1223, 355, 1240, 1245, 3640). In all these operations as they have been carried out in their respective states, Petitioners have for many years regulated Phillips. In addition, Phillips has always been regarded by Petitioners as an independent producer, gatherer and processor of natural gas (R. 486-487).

On the basis of the record as a whole, which consisted of almost 10,000 pages, the Commission found

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[4] Exhibits 169-177, R. 1298-1639, are copies of the reports required by the Railroad Commission of Texas and the Oil Conservation Commission of New Mexico to show the volumes processed at the various plants. These reports show the comparative volumes of casinghead gas and gas well gas processed in each plant. The volumes of gas delivered to Cities Service Gas Company, which is all casinghead gas (R. 291), are described in the testimony of George C. Roth (R. 282-284).

that Phillips' sales of gas, and the movement and processing of the gas which precede the sales, are all a part of or incidents of or activities related to its gathering business within the meaning of the production and gathering exemption of Section 1(b) of the Act and that the Commission therefore had no jurisdiction to regulate the sales (R. 1682-1755).

The Commission, paraphrasing this Court's language in *Interstate Natural Gas Co.* v. *Federal Power Commission,* 331 U.S. 682, 690 (1947), found as a fact upon substantial evidence presented by Petitioners, that FPC regulation of Phillips' sales would be inconsistent with or would substantially interfere with State regulation by the states in which the gas is produced. This was the sole ground upon which Commissioner Draper concurred with the majority (R. 1753-1755). Commissioner Buchanan dissented (R. 1755-1835).

The Commission therefore found that Phillips is not a natural gas company within the meaning of the Natural Gas Act and ordered the proceeding terminated. Upon review, the Court of Appeals for the District of Columbia, by a 2 to 1 decision, reversed the order of the Commission, and directed the Commission to proceed to regulate Phillips' sales of gas (R. 1865).

QUESTION PRESENTED

Whether sales of natural gas to interstate pipe line companies by an independent producer and gatherer, consummated by delivery as the last step in the gathering process, are subject to regulation by the Federal Power Commission under the Natural Gas Act, where the Commission finds upon substantial evidence that

the sales were made during the course of production and gathering and that its regulation of such sales would be inconsistent and would substantially interfere with state regulatory functions with respect to production and gathering.

REASONS RELIED ON FOR THE ALLOWANCE OF THE WRIT

1. THIS CASE PRESENTS AN IMPORTANT QUESTION CONCERNING THE PROPER INTERPRETATION OF THE NATURAL GAS ACT WHICH THIS COURT HAS NOT DECIDED BUT SHOULD DECIDE.

The decision of the Court of Appeals to the effect that sales by independent [5] producers and gatherers of natural gas in interstate commerce for resale are subject to regulation by the Federal Power Commission presents a question of grave, general importance and a question of substance relating to the construction and application of the Natural Gas Act which has not been, but should be, settled by this Court. Indeed the question was specifically reserved by this Court in *Interstate Natural Gas Co.* v. *Federal Power Commission,* 331 U.S. 682, 690, note 18 (1947).

Moreover, by a 2 to 1 decision the Court of Appeals has overturned a 4 to 1 decision by the Commission which adhered to the Commission's consistent construction of the Natural Gas Act since its enactment in 1938 to the effect that it had no jurisdiction of sales by independent producers and gatherers. For the Commission's summary of these actions, see R. 1720-

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[5] An independent producer and gatherer is one not owning or operating a transmission line and not affiliated with a company which does.

1728.[6] The consequences of the decision of the court below are not confined to the operations of Phillips Petroleum Company. The reasoning of the decision is such that it seems likely that it will lead to federal regulation of all sales made by independent producers and gatherers in interstate commerce for resale at the end of their gathering operations. There are more than 2300 such producers who sell directly to interstate transmission companies which are natural gas companies within the meaning of the statute (R. 728-729). The extension of federal regulatory power involved may be illustrated by contrasting the number of these gatherers with the 140 natural gas companies presently subject to Federal Power Commission regulation.[7]

In addition the decision below affects directly and substantially the interests of the producing states, because, as is shown at pp. 9-17, *infra,* the extension of federal regulatory power to sales made in the field by independent producers and gatherers will inevitably conflict with and render ineffective state conservation programs and policies. Finally, both because of this impairment of state conservation measures and because federal regulation will discourage independent

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[6] For the cases themselves, see: Re Columbian Fuel Corp. 2 F.P.C. 200 (1940); Re Billings Gas Co. 2 F.P.C. 288 (1940); Re Interstate Natural Gas Co., Inc., 3 F.P.C. 416 (1943); Re The Fin-Ker Oil and Gas Production Co., 6 F.P.C. 92 (1947); Re The Chicago Corporation, 6 F.P.C. 98 (1947); Re Kansas-Nebraska Gas Co., Inc., 6 F.P.C. 664 (1947); Re. J. R. and D. E. Whelan, 6 F.P.C. 672 (1947); La Gloria Corporation, 7 F.P.C. 349 (1948); Superior Oil Company, 7 F.P.C. 627 (1948); General Crude Oil Company, 7 F.P.C. 1024 (1948).

[7] Statistics of Natural Gas Companies, U. S. Government Printing Office, 1951, pp. 501-502.

producers and gatherers from selling gas in interstate commerce, the extension of federal control required by the decision below will ultimately have a serious effect on the interests of consumers by reducing the supply of natural gas available for their use (R. 428-430).

2. REGULATION BY THE FEDERAL POWER COMMISSION SUCH AS DECREED BY THE COURT BELOW WOULD SUBSTANTIALLY CONFLICT WITH STATE REGULATORY POWERS.

The sales which the Court of Appeals here ordered should be regulated by the Federal Power Commission are undeniably made in the respective fields of production located in Texas, Oklahoma and New Mexico. The sales are beyond question sales by a producer. That company also gathers in the same field gas purchased from other producers and sells that gas along with its own produced gas. The amount which it receives for the gas sold will not only affect it as a producer but will also affect other producers in the field whose gas it gathers. If the sales here involved are subject to regulation, then other sales made in the field by other producers and gatherers would likewise be subject to regulation. Each of these petitioners, the States of Texas, Oklahoma and New Mexico, established by detailed evidence that regulation by the Federal Power Commission of field sales such as are here involved would substantially interfere and conflict with their regulatory powers (Texas: R. 375-520, 557-592; Oklahoma: R. 602-619; New Mexico: R. 521-557). The Federal Power Commission expressly so found (R. 1745-1747). The ways in which the conflict will come about include the following:

Conservation Policies Relating to Price

Petitioners are each concerned with the conservation of gas. Each is acutely aware of the direct relationship between price and conservation.[8] Petitioners' policies with respect to this relationship differ, but there can be no doubt that regulation of producers' and gatherers' prices by the Commission will collide with, and substantially interfere with and hinder, Petitioners in the furtherance of their respective policies and programs.

One of the methods by which Oklahoma maintains the proper relationship between price and conservation is through the establishment of the minimum price at which gas may be produced. On December 9, 1946, long before this proceeding was instituted, Oklahoma found it necessary, as a means of preventing waste, to prescribe the minimum price at which gas may be

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[8] Concerning this relationship, the Federal Power Commission found:

> "... there is a direct relation between price and conservation, an important concern in the regulation of each of the states. Even though a producer be allowed a reasonable return on actual legitimate investment, our fixing of maximum rates for his sales would run counter to State conservation efforts, through the fixing of minimum well-head prices or otherwise, to insure maximum recovery of gas prior to abandonment of the well. For the higher the profit, the longer it is economical to operate the well. And to the extent that the producer could obtain a profit higher than that permissible under our maximum-price regulation, the longer abandonment would be postponed. Similarly, the higher the price paid to the producer and gatherer, the easier it becomes for the State to discourage by regulation the flaring of gas and to encourage the gathering and marketing of such gas. This is particularly true as to casinghead gas."

produced from the Guymon-Hugoton Field (R. 1266-1276). That order was sustained by this Court.[9] Some of the very sales involved in this case are covered by the Oklahoma minimum price order.[10]

The conflict with state authority in those instances where such minimum prices are fixed is obvious. It is no less obvious in those instances where the state chooses, as Texas and New Mexico have done, to let free competition control.

The progress made in recent years toward greater conservation has been the result of pioneering experimentation on the part of the states. What is adopted by one state may not always be adopted by another. Moreover, one state's policies or programs may prove unwise in another. Minimum prices may be the proper step toward greater conservation or they may not. At all events, it is a matter for each state to decide.

The representatives of Texas and New Mexico testified that those states have thus far found free competition to be the most effective agent in maintaining proper price levels for maximum conservation (Texas: R. 462-465; New Mexico: R. 556-557), although New Mexico's Commission has the authority to fix minimum prices in the event they become necessary (R. 532-533). Regulation of producers' and gatherers' prices by the Commission is as much an interference with this policy as with Oklahoma's minimum prices. In either case, the result of the Court of Appeals' decision is that control of this cornerstone of conservation is to be taken from the states and put in a federal

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[9] Cities Service Gas Co. v. Peerless Oil and Gas Co., 340 U.S. 179 (1950).

[10] Phillips Petroleum Co. v. Oklahoma, 340 U.S. 190 (1950).

agency whose duties do not encompass conservation.

An argument made in the Court of Appeals by those in favor of the Commission's regulation will undoubtedly be made again in this Court. That argument says that even where minimum prices are fixed there can be no conflict until the Commission has set a rate lower than the minimum prescribed by Petitioners. The fallacy of the argument becomes apparent when it is recognized that it is the *existence* of conflicting powers, not how they are exercised, which denies jurisdiction to the Commission.

Otherwise the absurd result would follow that for the Commission to find that it has no jurisdiction, it must first have exercised that jurisdiction. This Court has recognized the fallacy of any such rule for determining the existence of a conflict.[11]

This Court has said that the test of the Commission's jurisdiction is conflict "present or *threatened.*"[12] The Court of Appeals' decision shows on its face that conflict with Petitioners' programs and

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[11] In Bethlehem Steel Co. v. New York Labor Rel. Bd., 330 U.S. 767, 775-776 (1947), this Court said:

> "But the power to decide a matter can hardly be made dependent on the way it is decided. * * * If the two boards attempt to exercise a concurrent jurisdiction to decide the appropriate unit of representation, action by one necessarily denies the discretion of the other. The second to act must either follow the first, which would make its action useless and vain, or depart from it, which would produce a mischievous conflict. The State argues for a rule that would enable it to act until the Federal board had acted in the same case. But we do not think that a case by case test of Federal supremacy is permissible here."

[12] Interstate Natural Gas Co. v. Federal Power Commission, 331 U.S. 682, 692 (1947).

policies is not only "threatened," it must necessarily follow.

Unit Operation

Only a little over a year ago, this Court upheld an Oklahoma order prescribing compulsory unitization of a common reservoir.[13] One of the sales involved in this case, that to Cities Service, is of gas produced from the West Edmond Hunton Lime Unit, created pursuant to the same statute (R. 1577, 7427-7433).

Oklahoma has adopted compulsory unitization;[14] Texas and New Mexico have adopted voluntary unitization subject to the approval of their respective Commissions.[15] In both Oklahoma and Texas, one of the facts which must be found by the state regulatory agencies before unitization is required or approval is given is that the value of the additional oil and gas to be recovered will exceed the added cost of such method of operation.[16] In all three States, the basis of exercising this power is to prevent waste. Thus, if the Federal Power Commission is to regulate the price that can be received by producers and gatherers from such an operation, such control would no doubt be the determining factor to the complete exclusion of a determination by the States.

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[13] Palmer Oil Corp. v. Amerada Petroleum Corp., 343 U.S. 390 (1952).

[14] Sec. 287.1 et seq., Title 52, Okla. Stat. 1951.

[15] Art. 6008b, Revised Civil Stat. of Texas, 1925; Sec. 69-213½(e), Secs. 8-1138, 1139, New Mexico Stat. 1941 (1951 Cum. Supp.).

[16] Section 287.3, Title 52, Okla. Stat., 1951; Section 1, Art. 6008b, Revised Civil Stat. of Texas, 1925 (as amended).

Unitization has proved that great possibilities lie ahead in its use to the end that the maximum recovery will be obtained. Its further use would be seriously confused and curtailed if the Commission is authorized to regulate producers' and gatherers' rates, particularly if the Commission should persist in fixing rates on a strict cost basis, thus setting different rates for each unit lessee.

Proration

Under the applicable statutes, Petitioners limit the production of gas to the market demand.[17] Under these statutes the entire market demand is prorated among all the producers in the field and no one producer can be assured of being able to supply his own market from his own production. The result is the absolute necessity for a free interchange or interconnecting of gas among the producers in the field in order to assure each purchaser's ability to obtain the gas he needs to supply his demands. Such free interchange is practical only where producers may sell to any market without fear of being regulated as a natural gas company. Extraneous factors such as whether the sale will be a sale for resale in interstate commerce subject to regulation and whether, once having begun a temporary sale to supply the short-term needs of an interstate transmission company, the sale may be abandoned without the consent of the Federal Power Commission, will serve only to hinder and restrict the effectiveness of Petitioners' proration policies.

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[17] Art. 6008, Revised Civil Stat. of Texas, 1925 (as amended); Section 239, Title 52, Okla. Stat. 1951; Section 69-213, New Mexico Stat., 1941 (1951 Cum. Supp.).

This interconnecting of gas in many instances may be prompted by Petitioners' regulations. For example, the Texas Railroad Commission may shut in a producer who has an excess allowable over his market demand if it is found that such producer refuses to sell his gas at a reasonable price to a producer who has less allowable than his market demand.[18] Fixation of prices by the Federal Power Commission would usurp the Railroad Commission's functions in situations of this kind.

Ratable Taking of Gas

The protection of correlative rights of owners of gas in a common reservoir is made possible through Petitioners' authority to require ratable taking. An example of the necessity for the enforcement of ratable taking is to be found in this Court's decision in *Republic Natural Gas Company* v. *Oklahoma,* 334 U.S. 62 (1948).

The questions raised in that case demonstrate that, lacking authority with respect to the price, terms and conditions of the taking of the gas, the authority to regulate ratable taking as between producers, takers and purchasers would be ineffective. To give the Federal Power Commission control over the price would be to take from Petitioners an essential element of the effectiveness of their regulation.

Saving of Casinghead Gas

One of Petitioners' most difficult problems is the elimination of the wastage of casinghead gas. Since casinghead gas is produced as and when oil is pro-

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[18] Sec. 20, Art. 6008, Revised Civil Stat. of Texas, 1925.

duced, it must be gathered and marketed immediately. Gas well gas, which can be kept in the ground until needed, must not be allowed to fill markets which can be effectively served by the use of casinghead gas. In the past, billions of cubic feet have been wasted. Texas has found it necessary on some occasions to require that entire oil fields be shut in until a gas market is developed, in order that the flaring of casinghead gas may be stopped.[19] To do this, extensive and expensive gathering lines must be laid and in most instances costly processing plants must be built in the field.

Petitioners' efforts have substantially reduced the wastage of casinghead gas. The success of these efforts has been due in a large measure to the fact that the price of gas has increased to the extent that it has made the operations economically feasible (R. 438). To give the Federal Power Commission jurisdiction to limit the price of gas will seriously interfere with Petitioners' efforts to prevent the waste of casinghead gas.

Well Spacing

An important part of Petitioners' duties is the establishment of well spacing, which is very materially influenced by the economics involved. The record in this proceeding shows that Petitioners' well spacing activities are greatly affected by the "price of gas" (R. 515, 606, 609).

Any action by the Commission regulating the price of gas would thereby, in a large measure, control and interfere with what Petitioners can do in respect to well spacing.

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[19] For an example, see *Railroad Commission* v. *Sterling Oil & Refining Company*, 147 Tex. 547, 218 S. W. 2d 415 (1949).

Conservation Generally

In its opinion, the Commission pointed out the direct relationship between price and conservation (R. 1745-1747). The evidence in this case is more than sufficient to show that such a relationship does exist. Each of Petitioners' representatives so testified (Texas: R. 437-439, 575; Oklahoma: R. 605-607, 609-611; New Mexico: R. 532).

One of Petitioners' foremost objectives is to prevent waste and secure the greatest ultimate recovery. To abandon gas still in the ground is one of the most obvious forms of waste, but the amount of gas that will be produced from any given reservoir depends to a great extent upon the price. A low price means that marginal wells will not be drilled. The manner in which a well is equipped and the length of time it is produced are controlled by economics. Price is the determining factor.

The evidence of the unavoidable conflict between the regulation by the Federal Power Commission of the sales here involved and the regulatory powers of these Petitioners is clear and overwhelming.

Under such circumstances, the jurisdiction of the Commission does not attach.

3. THE COURT BELOW ERRED IN REFUSING TO GIVE EFFECT TO THE COMMISSION'S FINDING THAT ITS REGULATION OF PHILLIPS' SALES WOULD CONFLICT AND SUBSTANTIALLY INTERFERE WITH STATE REGULATORY AUTHORITY.

Although decisions of this Court involving sales by transmission companies are not controlling in respect to sales by independent producers and gatherers, the limitation on FPC regulation of sales by transmission

companies as expounded by this Court will of course apply to sales by independent producers and gatherers, if such sales are subject to FPC jurisdiction under any circumstances. In *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U.S. 682, 690 (1947), this Court, in dealing with sales made by a transmission company, and in speaking of the provisions of Section 1(b) that the Act should not apply to production or gathering, said:

> "*The purpose of that restriction was, rather to preserve in the States powers of regulation in areas in which the States are constitutionally competent to act.* Thus the House Committee Report states: '*The bill takes no authority from State Commissions, and is so drawn as to complement and in no manner usurp State regulatory authority . . . .*' Clearly, among the powers thus reserved to the States is the power to regulate the physical production and gathering of natural gas in the interests of conservation or of any other consideration of legitimate local concern. It was the intention of Congress to give the States full freedom in these matters. *Thus, where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach.*"[20]

[20] All emphasis in quotations is supplied.

It is noteworthy that two of the Petitioners here (Texas and Oklahoma) filed briefs and presented oral argument in the *Interstate* case in this Court. Fear was expressed that under the decision of the Fifth Circuit Court (156 F. 2d 949) sales by independent producers and gatherers would be regulated (Transcript of oral argument, p. 35-50). One of the grounds urged in opposition to regulation of sales made during production and gathering was that such regulation would conflict and interfere with state regulatory authority.

The Federal Power Commission was emphatic in denying in its brief and in oral argument (Brief, p. 18; oral arg. p. 59, 80, 81, 83), that regulation of sales by a transmission company such as Interstate would result in regulation of sales by independent producers and gatherers. This Court was careful to point out that in holding Interstate's sales subject to regulation, it was not passing upon sales made by independent producers and gatherers (331 U.S. at p. 690, note 18). Yet as we interpret the Court of Appeals' construction of the above-quoted language from the *Interstate* case wherein this court stated the circumstances under which jurisdiction of the Federal Power Commission does not attach, that Court holds that a sale is subject to regulation if consummated by delivery as the last step in gathering *even if conflict between federal regulation and state regulatory authority is shown*, and that in order to obtain the benefit of the rule laid down in the *Interstate* case, a sale must be made *before* rather than simultaneously with the completion of gathering. Under this test the sale is subject to regulation unless followed by more gathering. Since the greater part of all gas gathered by independents is sold at the end of the process, this

misinterpretation has the effect of subjecting the great bulk of the gathering business to federal regulation. Thus by an unrealistic and impractical interpretation of the language of this Court, the court below transformed the rule of law intended to protect the interests of the states into a rule of law that will permit defeat of their conservation measures.

A. THE COMMISSION'S FINDING THAT THE SALES WERE MADE DURING THE COURSE OF PRODUCTION AND GATHERING SHOULD BE ACCEPTED BY THE COURTS.

The Commission found that Phillips' sales are a part of production and gathering (R. 1744) and that they are made " 'during the course of production and gathering' " (R. 1745). It also found that Phillips' gathering operations included the movement through "the relatively short line leading from the point where processing is partly or finally completed, to the various points where sale or delivery or both takes place" (R. 1743).

The Court of Appeals, however, concluded that "Phillips sells the gas after the time and beyond the place at which production and gathering are complete and after processing has intervened,"[21] and therefore the question of conflict with State regulation is immaterial.[22]

The Court of Appeals brushed aside the evidence which supports the Commission's findings by holding that what constitutes gathering is a question of law. In so holding, the Court erred and failed to give the

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[21] R. 1857.

[22] R. 1863 note 11.

Commission's finding the finality to which it is entitled.[23]

The words "production or gathering" having been used in reference to a business should be given their meaning as understood by the industry to which they apply.[24] As this Court said in *United States* v. *Maher,* 307 U.S. 148, 155 (1939), "The recognized practices of an industry give life to the dead words of a statute dealing with it."

How those words are understood in the industry is undoubtedly a question of fact. All parties proceeded on that theory and introduced testimony before the Commission bearing upon that fact (R. 311, 368-369, 680-681, 691, 699-700). There being substantial evidence to support the Commission's finding, the Court should accept it.[25]

Emphasis to this rule may be drawn from the power given to the Commission to define "trade terms used in this Act."[26] "Production and gathering" are undoubtedly trade terms.

Whether the determination of what constitutes production or gathering is to be made by applying the

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[23] Sec. 19(b) of the Natural Gas Act, 15 U.S.C. 717r(b), provides:

> "The finding of the Commission as to the facts, if supported by substantial evidence, shall be conclusive."

[24] See O'Hara v. Luckenbach S. S. Co., 269 U.S. 364, 370 (1926); Order of Railway Conductors v. Swan, 329 U.S. 520 (1947); Carter v. Liquid Carbonic Pacific Corp., 97 F. 2d 1 (9th Cir. 1938); Roberts v. Tenn. Coal, Iron & R. Co., 255 Fed. 469 (5th Cir. 1919) cert. denied 250 U.S. 659; 50 Am. Jur. p. 265, Sec. 277.

[25] Natural Gas Act, Sec. 19(b), 15 U.S.C. 717r(b).

[26] Natural Gas Act, Sec. 16, 15 U.S.C. 7170.

terms of the statute to uncontroverted facts or by resolving disputed facts, the application of the statute is entrusted to the expert judgment of the body charged with its administration, and the only function of a reviewing court is to determine whether the Commission's interpretation has "warrant in the record and a reasonable basis in law." *Gray* v. *Powell,* 314 U.S. 402 (1941). It does not matter that the interpretation made by the administrative agency differs from the one the Court would have made.[27]

Further, considering that what constitutes "gathering" is a question of law, the decision of the Court of Appeals is out of harmony with this Court's decision in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.,* 337 U.S. 498 (1949), where it was said that the term "production or gathering" should not be construed narrowly, but should be construed to exclude from regulation by the Commission matters incident or related to those functions. Applied to the *Interstate* case, this means that "during the course of" includes not only everything done from the beginning to, and including, the end of production and gathering, but everything incident or related to those functions as well. Certainly this would include a sale as the end product of production and gathering, exactly as was found by the Commission in its order (R. 1744).

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[27] Unemployment Compensation Commision v. Aragon, 329 U.S. 143, 153, 154 (1946); Cardillo v. Liberty Mut. Ins. Co., 330 U.S. 469, 478 (1947).

B. THE STATES HAVE THE POWER TO REGULATE PHILLIPS' ACTIVITIES AS A PRODUCER AND GATHERER.

Although we can't be certain that the Court's statement (Opn. p. 8) that "no state can regulate these sales" was intended to bear upon its treatment of the conflict of powers point, we shall assume that it was so intended.

The Court was clearly in error in making that statement. *Cities Service Gas Co.* v. *Peerless Oil and Gas Co.*, 340 U.S. 179 (1950). In any event this Court's opinion in the *Interstate* case shows beyond question that the power of the State to regulate the particular sale is *not* the controlling test. If regulation by the Federal Power Commission will be inconsistent or substantially interfere with the States in their regulation of even the *physical* activities or any phase of production and gathering within the power of the States to regulate, then the Commission's jurisdiction does not attach.

In its opinion, in the *Interstate* case, this Court said:

> "*Clearly among the powers thus reserved to the State,* is the power to regulate the *physical* production and gathering of natural gas in the interests of conservation or of any other consideration of legitimate local concern. It was the intention of Congress to give the State *full freedom in these matters.* Thus, where sales, though technically consummated in interstate commerce, are made during the course of production and gathering, and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction

of the Federal Power Commission does not attach" (331 U.S. at 690) (emphasis supplied).

One of the powers which the States may exercise in the interests of conservation is the power to establish minimum prices at which gas may be produced. That power extends to and has been exercised by Oklahoma as to *the sales to Panhandle Eastern and Michigan-Wisconsin here involved.*

In *Cities Service Gas Co.* v. *Peerless Oil and Gas Co.,* 340 U.S. 179 (1950), this Court sustained the power of Oklahoma, one of the Petitioners here, to prevent waste by requiring a minimum price for gas, even where the gas is sold in interstate commerce. That minimum price was established in the Guymon-Hugoton Field of Oklahoma from which the gas sold by Phillips to Panhandle Eastern is in part produced (R. 1695). Since the decision in the *Cities Service* case, Phillips has also begun its sale to Michigan-Wisconsin of gas produced in part from the same field (R. 1691), and that gas is likewise subject to Oklahoma's minimum price regulation.[28]

This Court has always been consistent in upholding State powers with respect to the conservation of oil

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[28] The Court of Appeals purported to distinguish the *Cities Service* case on the ground that it involved only sales at the wellhead. But the Court of Appeals overlooked the fact that in a companion case, decided the same day and arising out of the same proceeding, this Court held that Oklahoma's power is not limited because the first sale occurs at the conclusion of gathering. Phillips Petroleum Company v. Oklahoma, 340 U.S. 190 (1950). True, in that case Phillips did not argue in this Court that Oklahoma's order violated the Commerce Clause of the Federal Constitution, but this Court's decision in the *Cities Service* case shows that it would have been unsuccessful had it done so.

and gas. *Railroad Commission* v. *Rowan & Nichols Oil Co.*, 310 U.S. 573 (1940); *Cities Service Gas Co.* v. *Peerless Oil and Gas Co., supra.* And in all the Court's decisions under the Natural Gas Act there is clear and consistent recognition of the exclusive State position in the field of conservation of oil and gas. *Federal Power Commission* v. *Panhadle Eastern Pipe Line Co.*, 337 U.S. 498 (1949); *Interstate Natural Gas Co.* v. *Federal Power Commission, supra; Panhandle Eastern Pipe Line Co.* v. *Public Service Commission of Indiana,* 332 U.S. 507 (1947). The Court of Appeals, however, now says that the States may not seek to conserve their gas in a way which this Court has upheld. The power to further conservation through minimum price, so recently approved by this Court, is emasculated by the Court of Appeals. The Court was not content to rest its decision on its conclusion that the finding of conflict with State authority was immaterial, but went on to say that it did not imply that it believed the finding by the Commission supportable, and said:

> "On the contrary, as the Supreme Court has held, federal protection of consumers against exorbitant rates is not inconsistent with the exercise by the producing state of its regulatory functions. *Interstate Natural Gas* case, *supra.*" (R. 1863-1864, note 11)

Nothing in the *Interstate* case supports that statement. On the contrary, this Court clearly said that under specified circumstances of conflict jurisdiction of the Federal Power Commission does not attach.

In intervening and presenting our evidence in this case, we are not unmindful of the standard announced by Mr. Chief Justice Vinson in the *Interstate* case:

> "But such conflict must be clearly shown. * * * It is not sufficient to defeat the Commission's jurisdiction over sales for resale in interstate commerce to assert that in the exercise of the power of rate regulation in such cases local interests may in some degree be affected."

Petitioners are convinced that their evidence showing that federal regulation of the sales here involved will conflict with their respective conservation powers fully meets this test. We earnestly urge the Court to review that evidence, for we believe firmly that it affords a substantial basis for upholding the order of the Federal Power Commission.

CONCLUSION

It is respectfully submitted that a writ of certiorari should be granted and that the decision of the Court of Appeals should be reversed.

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APPENDIX A

NATURAL GAS ACT

[Public—No. 688—75th Congress]
[Chapter 556—3d Session]
[H. R. 6586]

AN ACT

To regulate the transportation and sale of natural gas in interstate commerce, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Necessity for Regulation of Natural-Gas Companies

SECTION 1. (a) As disclosed in reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.

(b) The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

SECTION 2. When used in this act, unless the context otherwise requires—

• • •

(6) "Natural-gas company" means a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale.

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Extension of Facilities; Abandonment of Service

SECTION 7. * * *

(b) No natural-gas company shall abandon all or any portion of its facilities subject to the jurisdiction of the Commission, or any service rendered by means of such facilities, without the permission and approval of the Commission first had and obtained, * * *

(c) No natural-gas company or person which will be a natural-gas company upon completion of any proposed construction or extension shall engage in the transportation or sale of natural gas, subject to the jurisdiction of the Commission, or undertake the construction or extension of any facilities therefor, or acquire or operate any such facilities or extensions thereof, unless there is in force with respect to such natural-gas company a certificate of public convenience and necessity issued by the Commission authorizing such acts or operations: * * *

FILED
MAR 17 195
HAROLD B. WILLEY,

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1953

No. 281

STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; AND STATE OF NEW MEXICO AND OIL CONSERVATION COMMISSION OF NEW MEXICO, *Petitioners,*

vs.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; AND THE FEDERAL POWER COMMISSION, *Respondents*

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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1953

No. 281

STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; AND STATE OF NEW MEXICO AND OIL CONSERVATION COMMISSION OF NEW MEXICO,

Petitioners,

vs.

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF DETROIT, MICHIGAN; CITY OF KANSAS CITY, MISSOURI; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; AND THE FEDERAL POWER COMMISSION,

Respondents

BRIEF FOR PETITIONERS

Opinions Below

The opinion of the Court of Appeals (R. 1842-1856) is reported in 205 F. 2d 706. The findings and opinions of the Federal Power Commission (R. 1682-1835) are reported in 10 F. P. C. 246, 90 PUR (NS) 325.

Jurisdiction To Review

Jurisdiction of this Court rests upon Title 15, United States Code, Section 717r(b), and Title 28, United States Code, Sections 1254(1) and 2101. The judgment of the United States Court of Appeals for the District of Columbia Circuit was entered on May 22, 1953 (R. 1858). The petition was filed on August 22, 1953 and was granted on January 18, 1954.

Question Presented

Whether sales of natural gas to interstate pipe line companies by an independent producer and gatherer, consummated by delivery as the last step in the gathering process, are subject to regulation by the Federal Power Commission under the Natural Gas Act, where the Commission finds upon substantial evidence that the sales were made during the course of production and gathering and that its regulation of such sales would be inconsistent and would substantially interfere with state regulatory functions with respect to production and gathering.

Statute Involved

The statute involved is the Natural Gas Act (Act of June 21, 1938, Ch. 556, 52 Stat. 821, as amended by Act of February 7, 1942, Ch. 49, 46 Stat. 82, and Act of July 25, 1947, Ch. 333, 61 Stat. 459, 15 U.S.C. Sec. 717). The pertinent provisions of the Act are printed as Appendix A to this brief.

Statement

By order dated August 16, 1951, the Federal Power Commission (Commission) determined that Phillips Petroleum Company (Phillips) is not a natural gas company within the meaning of the Natural Gas Act and that the Commission has no jurisdiction to regulate its rates (R. 1682-1755).

Commissioner Draper concurred specially with the majority (R. 1753-1755) and Commissioner Buchannnon dissented (R. 1755-1835). This order resulted from an extensive investigation to determine (1) whether Phillips is a "natural gas company" within the meaning of the Act, and (2) if so, whether any of its rates subject to the jurisdiction of the Commission are unjust or unreasonable. By order dated April 16, 1951, the Commission postponed the consideration of rates until its jurisdiction could be determined (R. 1671-1680). A lengthy hearing was held in Bartlesville, Oklahoma, before a presiding examiner, the hearing beginning April 3, 1951, and ending May 23, 1951. No report was filed by the presiding examiner, the Commission having ordered the omission of his report in conformance with its rules and upon the stipulation of all parties (R. 1680-1681).

Petitioners are vested, under the laws of the State of Texas [1] Oklahoma [2] and New Mexico [3] with the jurisdiction, duty and authority to administer and enforce the laws of their respective states with respect to the development, production, gathering, conservation, marketing and utilization of the oil and gas resources of the state. Petitioners' statutes and regulations constitute a comprehensive program of regulation of the production and gathering of natural gas, including the unitization of fields, proration, ratable taking, well spacing, drilling of wells, effective use of casinghead gas, avoidance of waste, and all matters looking toward the conservation and greatest ultimate recovery of natural gas. Also included is the establishment of minimum prices as a condition to production where such regulation is conducive to the furtherance of state policies and programs with respect to conservation.

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[1] Title 102 Rev. Civ. Stat. of Tex. (1925, as amended).
[2] Title 52, Okl. Stat. 1951.
[3] Ch. 69, N. Mex. Stat., 1941.

Because this investigation threatened to bring sales by independent producers and gatherers of natural gas in interstate commerce for resale under regulation by the Commission, which would result in serious conflict or interference with the exclusive conservation powers and duties enumerated above, Petitioners intervened in the proceeding before the Commission and presented extensive evidence pointing out in detail how regulation by the Federal Power Commission of sales such as Phillips' would seriously conflict with the exercise of their regulatory powers. Petitioners also intervened in the Court of Appeals, filed briefs and presented oral argument in support of their contention. Likewise urging that regulation of Phillips' rates would be inconsistent with and would seriously interfere with their regulations, the producing states of Arkansas, Kansas, Louisiana and Mississippi also intervened in the proceeding before the Commission in opposition to the Commission's jurisdiction (R. 6, 1686-1687). The Commission, however, excluded the evidence offered by those states upon the ground that no gas involved in this particular proceeding was produced in those states. Intervening in support of the Commission's jurisdiction, were, among others, the five petitioners in the court below, *i. e.*, the State of Wisconsin, the Public Service Commission of Wisconsin, City of Detroit, Michigan, City of Kansas City, Missouri, City of Milwaukee, Wisconsin, and County of Wayne, Michigan, all of which are Respondents in this court.

The Commission's staff concentrated its evidence upon Phillips' sales of natural gas to five natural gas companies, which companies are subject to the jurisdiction of the Commission under the Natural Gas Act. Those companies were Michigan-Wisconsin Pipe Line Company, Panhandle Eastern Pipe Line Company, Cities Service Gas Company, Independent Natural Gas Company, and El Paso Natural Gas Company. The gas sold by Phillips to these companies is in

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part produced by Phillips and in part purchased by Phillips from other producers. From the wells, Phillips moves the gas through one of several systems of pipe lines, known in the industry as "gathering lines" (R. 365-374), to one of several gasoline plants, all located in the particular field where the gas is produced (R. 1215, 350).

At these gasoline plants, Phillips processes the gas for the extraction of the liquid hydrocarbons and for the removal of impurities to make the gas salable. The record indicates that approximately 50% of the gas produced by Phillips is casinghead gas, or gas produced from oil wells in conjunction with oil.[4] The production of oil is the controlling element in the production of this gas (R. 322). Much of the casinghead gas which is processed by Phillips is not produced by Phillips but is purchased at the wellhead on a form of contract which expressly makes the purchase of casinghead gas subservient to the production of oil and requires Phillips to return the residue gas to the producer for use in lease operations (R. 1158, 1161).

In many respects, although in legal effect a contract of purchase and sale, these contracts partake of the nature of a service contract in which the operations of the parties are interdependent and the proceeds shared. Thus, Phillips is permitted to sell only that part which is surplus or not returned to the oil producers (R. 1158-1177, 339). The price which Phillips pays under these contracts depends in part upon the gasoline content and in part upon the price which Phillips receives for the sale of the residue gas (R. 361-362), Phillips accounting to the producers for a sub-

[4] Exhibits 169-177, R. 1298-1639, are copies of the reports required by the Railroad Commission of Texas and the Oil Conservation Commission of New Mexico to show the volumes processed at the various plants within those states. These reports show the comparative volumes of casinghead gas and gas well gas processed in each plant. The volumes of gas delivered to Cities Service Gas Company, all of which is casinghead gas (R. 291), are described in the testimony of George C. Roth (R. 282-284).

stantial portion (from one-half to two-thirds) of the proceeds (R. 1164, 339). After processing, the residue gas which is available for sale is then delivered to various purchasers and substantial quantities are used by Phillips, but the predominant part of the residue gas is delivered to the purchasing pipe line company, delivery being made at the exhaust of the gasoline plants (R. 282, 292-293, 628, 1216-1223, 355, 1240, 1245). These plant exhausts are all within the plant fences (R. 872-894, 291) and vary in length from 200 feet to 1490 feet (R. 1646). Petitioners have for many years regulated Phillips in all these operations as they have been carried on in their respective states. In addition, Phillips has always been regarded by Petitioners as an independent producer, gatherer and processor of natural gas (R. 486-487).

On the basis of the record as a whole, which consisted of almost 10,000 pages, the Commission found that Phillips' sales of gas, and the movement and processing of the gas which precedes the sales, including the delivery at the exhaust of the processing plants, are all a part of its gathering business within the meaning of the production and gathering clause of Section 1(b) of the Act and that the Commission therefore had no jurisdiction to regulate these sales (R. 1682-1755).

In addition to its finding that Phillips' sales are a part of gathering, the Commission, paraphrasing this Court's language in *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, 690 (1947), found as a fact upon the basis of the evidence presented by Petitioners that the Commission's regulation of Phillips' sales would be inconsistent with or would substantially interfere with state regulation by the state in which the gas is produced. This finding was the sole ground upon which Commissioner Draper concurred with the majority (R. 1753-1755).

The Commission therefore found that Phillips is not a natural gas company within the meaning of the Natural Gas Act and ordered the proceeding terminated. Upon review, the Court of Appeals for the District of Columbia, Judge Clark dissenting, reversed the Order of the Commission, and directed the Commission to proceed to regulate Phillips' sales of gas (R. 1850).

Specification of Errors

1. The Court of Appeals erred in failing to hold that the Commission is without jurisdiction to regulate Phillips' sales because such regulation by the Commission would be inconsistent or a substantial interference with Petitioners' regulation.

2. The Court of Appeals erred in holding that the Commission's findings that its regulation would be inconsistent or a substantial interference with Petitioners' regulation were immaterial.

3. The Court of Appeals erred in failing to give effect to the Commission's finding that Phillips' sales are made during the course of production and gathering, or at least are an exempt incident thereof.

4. The Court of Appeals erred in holding that Petitioners have no power to regulate Phillips' sales.

Summary of Argument

I

The statutes of Texas, Oklahoma and New Mexico provide for a comprehensive scheme of regulation by Petitioners of production and gathering for the conservation of oil and gas and the protection of correlative rights. Petitioners' regulatory activities cover all phases of production and gathering, including minimum prices, unitization, well spacing, drilling of wells, proration, ratable taking, saving of casinghead gas, secondary recovery operations,

prevention of premature abandonment, and the assurance of the greatest possible ultimate recovery of the oil and gas in the ground. The price at which the gas is sold is and must be considered by Petitioners in their regulation of all of these activities. The evidence shows that there is a direct relationship between price and conservation and that control of price by the Commission would inevitably create conflict and interference with Petitioners' regulatory functions.

Under this Court's decision in *Interstate Natural Gas Co. v. Federal Power Commission,* 331 U.S. 682 (1947), the Commission has no jurisdiction to regulate sales even of an interstate pipe line company when the sales are made during the course of production and gathering if regulation of such sales by the Commission would be inconsistent or substantially interfere with state regulatory functions. Although it is submitted that independent producers and gatherers are not covered by the Act regardless of conflict, it is clear that independents' sales could not be regulated under circumstances whereby the same kind of sale by a natural gas company would not be subject to the Commission's jurisdiction. If, therefore, it is shown that regulation by the Commission of sales by independents during production or gathering would conflict with state regulatory functions that is an additional ground for denying the Commission's jurisdiction. The Commission found, upon the basis of substantial evidence, that its regulation of Phillips' sales would conflict with Petitioners' regulations. The Commission was therefore correct in holding that it does not have jurisdiction to regulate Phillips as a natural gas company.

II

The Court of Appeals was wrong in holding that the Commission's finding that its regulation would conflict with

Petitioners' regulation was immaterial. In so doing, the court overlooked the importance of conservation and ignored the meticulous care with which Congress left the control of production and gathering to the states, free from any control or interference by the Commission. This Court has held that the conservation of natural gas is a matter of legitimate local concern and that the Commission, under the Natural Gas Act, has no direct control over production and gathering. Instead of conflict being immaterial, this Court, in *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U.S. 682 (1947), specifically held that the Commission's jurisdiction would not attach if its regulation of sales made during the course of production and gathering would conflict with state regulation.

The Commission's findings that Phillips' sales are made "during the course of production and gathering" are supported by substantial evidence and are therefore conclusive upon the Court. Natural Gas Act, Section 19(b), 15 U.S.C. 717r(b). The determination of what constitutes production and gathering is a matter for the Commission and the only function of a reviewing court is to determine whether the Commission's interpretation has "warrant in the record" and a "reasonable basis in law." *National Labor Relations Board* v. *Hearst Publications, Inc.*, 322 U. S. 111, 131 (1944).

Argument

I

REGULATION BY THE FEDERAL POWER COMMISSION SUCH AS DECREED BY THE COURT BELOW WOULD SUBSTANTIALLY CONFLICT WITH STATE REGULATORY POWERS.

A. *The Commission's Decision Is Consistent With This Court's Decision In Interstate Natural Gas Co.* v. *Federal Power Commission, 331 U.S. 682.*

While the decision of the Commission was based upon two grounds, Petitioners believe that they are particularly

qualified to discuss the second ground of the decision. They will therefore leave to Petitioners in No. 280 and No. 418 the discussion of the first ground of the decision.

This case presents for the first time in this Court the question of the Federal Power Commission's jurisdiction to regulate sales of gas in the field by an independent producer and gatherer. The decision of the Court of Appeals would require the Commission, for the first time and in the face of its consistent construction of the Natural Gas Act to the contrary, to go into the field of production and regulate the price of gas sold in the field by a company whose only function with respect to that gas is its production and gathering. In so doing, the Commission would be invading an area which has heretofore been unregulated by a federal agency. It would be invading an area which, if regulated at all, has been regulated by the states in the interests of conservation.

It is undisputed that the sales here involved are made at arm's length in the field of production. There is no contention that Phillips is affiliated with any company regulated by the Commission as a natural gas company or that Phillips transports the gas beyond the limits of the field in which the gas is produced. With the exception of two of the sales, it is undisputed that Phillips' activities are begun and completed wholly within one state, even though all or part of those activities may be technically "in" interstate commerce. Even as to those two sales in which some of the gas moves in gathering lines that cross the Oklahoma-Texas border, [5] it is undisputed that Phillips' activities are begun and completed wholly within the confines of the Hugoton Field and that the crossing of state lines by Phil-

[5] In the case of Phillips' sales to Michigan-Wisconsin and Panhandle Eastern (Hansford Plant), Phillips' gathering lines extend into both Texas and Oklahoma (R. 810, 812, 1244).

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lips is brought about by the fact that the geological reservoir which forms that field is so situated that it lies across part of three different states (Texas, Oklahoma and Kansas).

All of Phillips' activities with respect to the sales here involved, as well as those of all other producers and gatherers, have at all times been subject to the conservation regulations of Petitioners. Those regulations are designed to prevent the waste of gas and to preserve the supply of gas for the benefit of all consumers for as long a period as possible. They have been consistently sustained by this Court, even where the gas was destined for interstate commerce. If the Federal Power Commission is to have jurisdiction to regulate the rates for gas sold in the field, then both state and federal agencies must operate in the same areas and upon the same subjects, yet with different and very likely inconsistent purposes. In such a situation, conflict or interference with one by the other is inevitable, with the resulting necessity that one must bow to the other.

The Commission recognized this problem and faced the issue squarely. In its opinion, the Commission gave two reasons for its conclusion that it does not have jurisdiction to regulate independent producers and gatherers such as Phillips. One was its considered judgment, supported by the legislative history of the Natural Gas Act, this Court's decisions construing the Act, and its own previous consistent administrative interpretation of the Act, that Congress did not intend for it to have such power (R. 1740-1744). The other equally conclusive reason, and the only one which we discuss here, was based upon the Commission's findings that its regulation of field prices would necessarily and inevitably conflict and interfere with state conservation regulations (R. 1745-1747).

The findings that conflict with state regulatory authority would result were based upon the evidence presented by Petitioners and upon the Commission's precise knowledge of the effect of its own regulation. The legal conclusion that such conflict prohibited the Commission from regulating Phillips' rates was predicated upon this Court's language in *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, 690 (1947). In that case this Court, in dealing with an interstate transmission company, and not an independent producer and gatherer, said:

> "In denying the Federal Power Commission jurisdiction to regulate the production or gathering of natural gas, it was not the purpose of Congress to free companies such as petitioner from effective public control. The purpose of that restriction was, rather, to preserve in the States powers of regulation in areas in which the States are constitutionally competent to act. Thus the House Committee Report states: 'The bill takes no authority from State Commissions, and is so drawn as to complement and in no manner usurp State Regulatory authority. . . .' Clearly, among the powers thus reserved to the States is the power to regulate the physical production and gathering of natural gas in the interests of conservation or of any other consideration of legitimate local concern. It was the intention of Congress to give the States full freedom in these matters. *Thus, where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach.* But such conflict must be clearly shown. Exceptions to the primary grant of jurisdiction in the section are to be strictly construed. It is not sufficient to defeat the Commission's jurisdiction

over sales for resale in interstate commerce to assert that in the exercise of the power of rate regulation in such cases, local interests may in some degree be affected."[6]

Although we do not believe that this language was meant to apply to independent producers and gatherers in the sense of requiring specific proof of conflict on a case by case basis, nevertheless if it does apply in that sense to independent producers and gatherers, the evidence in this case fully supports the finding of the Commission that the test is met.

It is to be observed that this Court in speaking of a conflict did not so much as indicate that the conflict is to be one of rate regulation against rate regulation or that it must be one of any other price regulation against price regulation. Quite to the contrary, this Court pointed out that the conflict could come about by "*rate regulation*" on the part of the Commission and regulation by the states of "the *physical production and gathering* of natural gas in the interests of conservation or any other consideration of legitimate local concern." Thus, any argument that the states have no power to regulate the particular sales involved is wholly beside the point. It is sufficient that rate regulation of sales by the Commission will interfere with the exercise of any legitimate conservation power of the states.

The evidence in this case convincingly demonstrates that regulation of the sales of Phillips by the Commission would inevitably result in interference with the exercise in many specific respects of admittedly legitimate conservation powers of these Petitioners.

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[6] Unless otherwise indicated, all emphasis in quotations in this brief is supplied.

B. *The Evidence Shows That Rate Regulation By The Commission Would Cause Substantial Conflict With State Regulation.*

The evidence before the Commission concerning the effect of rate regulation of field prices by the Commission upon state conservation programs, practices and policies was both complete and detailed. The evidence presented by these Petitioners alone on that one point covers approximately 215 pages of the printed record. Much additional evidence was offered by other states but was excluded by the presiding examiner on the ground that sales in those states were not then the subject of the Commission's inquiry.

The evidence presented by Petitioners consisted of the testimony of officials and employees of the state regulatory agencies charged with the duty of establishing and enforcing the states' conservation programs and policies—in brief, the men who know those programs and policies best. In the case of Texas, the principal witnesses were W. J. Murray, Jr., Member, and Jack K. Baumel, Chief Engineer, of the Railroad Commission of Texas. For Oklahoma, Ray C. Jones, Member, and Elmer Capshaw, Petroleum Engineer, of the Corporation Commission of Oklahoma, appeared as witnesses. Richard R. Spurrier, State Geologist and Member of the Oil Conservation Commission, testified for New Mexico.

These witnesses without exception testified that there is a direct and causal relationship between price and conservation (Texas: R. 437-439, 573-574; Oklahoma: R. 605-607, 609-611; New Mexico: R. 532). They pointed out that the states have adopted comprehensive programs designed to prevent waste and bring about the greatest ultimate recovery of gas as efficiently as possible. To this end, the states have adopted such devices, among others, as minimum prices, unitization, proration, bans against flar-

ing of gas, regulations requiring maximum utilization of casinghead gas, ratable taking, fixing of gas-oil ratios, and control of pressure maintenance and other secondary recovery operations. The effectiveness of these programs, however, depend in large part, upon voluntary compliance by producers with existing regulations and upon the cooperation of producers in developing and practicing new methods of conservation. But what producers can do to effect conservation depends largely upon economics, which are in turn controlled by the price received for the production.

The entire purport of the testimony of these witnesses is overwhelmingly to the effect that price is the most important single factor in the effectiveness of state conservation efforts. The significance of price can be seen in the history of the states' efforts to eliminate waste. Those efforts did not begin to bear real fruit until the price obtainable became realistic and gas actually became a valuable product (R. 445-456, 532). Even today, some states have found it necessary to establish minimum prices as a means of preventing waste.[7] It is not difficult to understand why these witnesses expressed real concern that the Commission's regulation of independent producers' and gatherers' rates in the field would seriously interfere with their own efforts.

Moreover, this concern was not expressed in generalities. These witnesses enumerated the specific instances where the conflict would arise, and why it would come about. Their testimony shows that regulation of independent producers' and gatherers' rates by the Commission would conflict and interfere with state regulation in each of the following respects:

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[7] *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U.S. 179 (1950); *Kansas-Nebraska Natural Gas Company* v. *State Comporation Commission*, 170 Kans. 341, 225 P. 2d 1054 (1951).

Conservation Policies Relating to Price

Petitioners are each acutely aware of the direct relationship between price and conservation. Because of this relationship, Petitioners' efforts to further conservation cannot be made fully effective unless the proper price is received for the gas which is produced, gathered, and sold. Petitioners have adopted different methods for assuring that the proper price will be received, but the end sought is a common one and the different approaches to this common problem are the result of the varying situations with which Petitioners must deal. There can be no doubt that regulation of producers' and gatherers' prices by the Commission will collide with and substantially interfere with and hinder Petitioners in the furtherance of their respective policies and programs.

One of the solutions adopted by Oklahoma in dealing with this relationship is the establishment of minimum prices where competitive forces are not expected to maintain the proper balance. As a means of preventing waste and protecting correlative rights, the Oklahoma Corporation Commission on December 9, 1946, long before this proceeding was instituted, prescribed a minimum price at which gas may be produced from the Guymon-Hugoton Field (R. 1266-1276). Upon appeal to this Court from the decision of the state supreme court sustaining that order [8], this Court sustained the order as a valid conservation measure, even though interstate commerce was affected. *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U. S. 179 (1950). A similar measure has been adopted by the Kansas Corporation Commission.[9]

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[8] *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 203 Okl. 35, 220 P. 2d 279 (1950).

[9] *Kansas-Nebraska Natural Gas Co.* v. *State Corporation Commission*, 170 Kans. 341, 225 P. 2d 1054 (1951).

The Court of Appeals attempted to disregard the conflict arising from this minimum price by purporting to distinguish the *Cities Service* case by holding that it applied only to wellhead sales and not to sales made at the end of gathering. But in a companion case decided the same day, this Court held that the power of the state to enforce its minimum price at the wellhead is not limited because the first sale occurs at the end of gathering. *Phillips Petroleum Company* v. *Oklahoma*, 340 U.S. 190 (1950).

In that case, Phillips sold no gas at the wellhead, but gathered it and processed it at its plants located in the gas field and sold the residue to Panhandle Eastern Pipe Line Company—one of the sales involved in this proceeding.[10] Phillips contested the validity of this order as applied to its operations. Neither the Corporation Commission of Oklahoma, the Supreme Court of Oklahoma nor this Court suggested that the order did not apply to Phillips' operations, but each said that Phillips was in compliance with the order because the sum of its receipts for liquids extracted and the residue gas was equal to the prescribed wellhead price (220 P. 2d at p. 292; 340 U. S. at p. 192). This Court held that the order was valid as applied to Phillips' operations. In the course of the opinion sustaining the order as applied to Phillips' operations this Court said in the *Phillips* case (340 U. S. at p. 192):

> "Phillips argues that it is not a purchaser but merely a producer; that unlike the situation in Cities Service, the order as applied to it lacks any connection with correlative rights, the interest of the public, monopolistic practices, or discrimination. The distinction is without a difference: the connection between

[10] Although not yet begun at the time that minimum price was established, Phillips has since begun the sale to Michigan-Wisconsin Pipe Line Company of gas which is produced in part from the Guymon-Hugoton Field and therefore subject to the Oklahoma minimum price order (R. 1691).

realized price and conservation applies to all production in the field, whether owners purchase from others or not, and whether they own pipe lines or not. *In a field which constitutes a common reservoir of gas, the Commission must be able to regulate the operations of all producers or there is little point in regulating any.*"

While Phillips did not urge the Commerce Clause as a bar to the Oklahoma order, this Court knew it was involved and passed upon that question in the companion *Cities Service* case. Thus, this Court dealt with one of the very sales involved in this case and upheld the order as it involved that sale.

The conflict with state authority in those instances where such minimum prices are fixed is obvious. But the establishment of minimum prices is not the only means by which the state can adopt a definite and precise policy with respect to the relationship between price and conservation. A considered determination by a particular state that free competition should control this relationship is as much a definitive act and a choice of methods as the establishment of a minimum price. The choice of free competition as the controlling device is the one which has, in fact, been made by Texas and New Mexico (Texas: R. 457-459; New Mexico: R. 556-557) although New Mexico adopts a slightly different approach than Texas, in that New Mexico believes that her conservation officials presently have the authority to establish minimum prices in the event they become necessary (R. 532-533).

That the choice of free competition is one of preference and not mere inaction is clear from the statements of Commissioner Murray of the Texas Railroad Commission (R. 429-431, 445-448, 457-459). In particular, he testified:

"• • • I indicated yesterday about our refusal to take jurisdiction that it has been argued we have, over setting a minimum price. It has been argued that we

already possess the authority to fix a minimum price, because if it is lower than that it is going to cause waste, and there is strong basis for such argument, but the Texas Railroad Commission—I don't mean to take issue with the wisdom of states which have done it, or I certainly don't mean to challenge our legislature if they clearly say that this is our responsibility and duty, but even though we argue the arguments on fixing prices, I say we would just stay out of that, and we want to get in and help all we can to attain conservation, but we didn't want to go to the point of saying, now, the price of gas in this near-exhausted field you were talking about, it is going to have to be twenty-five cents (25¢) a thousand because that is what it will take to recover it. Well, heck, that is more than the going price of gas and to me that wouldn't be conservation to allow them a price in order to gather that gas that is going to be worth more than it is currently worth in the open market. If we were trying to fix price purely on the basis of cost, I am afraid we'd just get hopelessly lost in a maze of situations there and we'd be fixing price up higher than anybody would pay for it. We'd have to order somebody to buy it, I guess, if we are going to set the price up to twenty-five cents and yet that might be required to conserve this gas, so all we would do from the standpoint of the philosophy of the Railroad Commission, we'd just stay out of price and we'd hope the price would be high enough to permit these reasonable things in conservation to be done. As it gets higher and higher, more and more things can be done in conservation and in turn as more and more things are being done in conservation, we save gas being wasted and make it available to the market, we are doing three billion feet of that a day in Texas and as the price gets higher and higher, the fellows are encouraged to drill for wells. Instead of passing up gas strata, they complete gas wells and that in turn makes a greater supply available and that in turn forces the price back down. In fact, that is our theory of the

only way of keeping a reasonable price of gas through the years is to have it high enough that it furnishes an incentive to conserve and explore for it and that is the surest way of, one, having abundant supply, and two, keeping the price reasonable." (R. 457-459).

In the court below, Respondents insisted that even where minimum prices are fixed, there can be no conflict until the Commission sets a rate lower than the minimum price prescribed by Petitioners. This argument misinterprets the language of this Court in the *Interstate* case. This Court there referred to "the exercise by the state of its regulatory functions." (331 U. S. at 690) But earlier in the same paragraph, this Court had emphatically stated that the states were to have "full freedom" with respect to production and gathering. The only way in which the states could have this full freedom is for the whole sphere of their control of production and gathering to be unfettered by any deterring effect stemming from regulation by the Commission. The Commission's jurisdiction therefore does not attach if rate regulation by it would in any way occupy an area in which the states are constitutionally free to act, since such action by the Commission would prevent the states from having the full freedom which this Court has held they are to have.

Any other interpretation of this Court's decision in the *Interstate* case would lead to absurd results. Under Respondents' interpretation, for example, in order for the Commission to find that it has no jurisdiction it must first exercise its jurisdiction. The very exercise of its jurisdiction, however, would then be the factor which deprived it of jurisdiction. If a price fixed by the Commission was not at that time below the minimum price fixed by the State, or if the Commission's rate applied in a State where there was no minimum price fixed, the Commission's jurisdiction could be ousted at any time if the State found it necessary

to fix a minimum price higher than the maximum fixed by the Commission. Neither the Commission nor the producer and gatherer would know how long the Commission's jurisdiction might continue. For good reason, therefore, this Court has held that no such impractical test for the determination of a conflict is to be permitted.[11]

But even if there must be an exercise of power with respect to price in order for there to be conflict, that situation exists here. Oklahoma has exercised its power by establishing a minimum price. Texas and New Mexico have exercised their power by determining that the relationship between price and conservation should be controlled by free competition. In either event, the states have acted under their conservation power and the only result of the Commission's exercise of rate-making authority would be the creation of a conflict with these powers.

Further, this Court has indicated that the test of the Commission's jurisdiction is conflict "present or *threatened*".[12] It is obvious that conflict with Petitioners' programs and policies is not only "threatened", it must necessarily follow. Regulation of producers and gatherers prices by the Commission will mean that Petitioners are no longer free to experiment and choose as to the best method to assure that the proper relationship between price and conservation is maintained. Control of that all-important tool will be

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[11] In *Bethlehem Steel Co.* v. *New York Labor Rel. Bd.*, 330 U.S. 767, 775-776 (1947), this Court said: "But the power to decide can hardly be made dependent on the way it is decided. * * * If the two boards attempt to exercise a concurrent jurisdiction to decide the appropriate unit of representation, action by one necessarily denies the discretion of the other. The second to act must either follow the first, which would make its action useless and vain, or depart from it, which would produce a mischievous conflict. The State argues for a rule that would enable it to act until the Federal Board had acted in the same case. But we do not think that a case by case test of Federal supremacy is permissible here."

[12] *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U.S. 682, 692 (1947).

in other hands. The result can only be that regulation of producers' and gatherers' prices by the Commission will be a stumbling block to Petitioners and will seriously interfere with and hinder Petitioners in the furtherance of their respective policies and programs.

Unit Operation

One of the most valuable techniques in the conservation of oil and gas is the unitization of fields. Oklahoma statutes provide for compulsory unitization of common reservoirs under certain conditions.[13] Texas and New Mexico have adopted voluntary unitization subject to the approval of their respective commissions.[14] In both Oklahoma and Texas, one of the facts which must be found by the state regulatory agencies before unitization is required or approval is given is that the value of the additional oil and gas recovered will exceed the added cost of such method of operation.[15] In all three states, the basis of exercising this power is to prevent waste.

One of the sales involved in this case, that to Cities Service Gas Company, is of gas produced from the West Edmond Hunton Lime Unit, created pursuant to an Oklahoma compulsory unitization statute (R. 1577, 905-918). The record indicates that 95-98% [16] of the fifty-two lessees (R. 910) in this unit are also selling their interest in the gas produced from this unit to Cities Service Gas Company under the provisions of the contract originally entered into

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[13] Sec. 287.1 et seq. Title 52, Okl. Stat. 1951. A predecessor statute was upheld by this Court in *Palmer Oil Corp.* v. *Amerada Petroleum Corp.*, 343 U.S. 390 (1952).

[14] Art. 6008 b, Rev. Civ. Stat. of Tex., 1925; Section 69-213½(e), Sections 8-1138, 8-1139, N. Mex. Stat. 1941 (1953 supp.).

[15] Sec. 287.3, Title 52, Okl. Stat. 1951; Sec. 1, Art. 688 c, Rev. Civ. Stat. of Tex., 1925 (as amended).

[16] The remainder of the unit gas is delivered to Cities Service Gas Company by Sohio Oil Company, the operator of the unit (R. 289-290).

between Phillips and Cities Service (R. 290, 631-632, 1012-1024), so that a determination that Phillips is a natural gas company by reason of this sale will in effect also determine that each of the other lessees in the unit is a natural gas company by reason of such sale.[17] Each unit lessee would thus be a natural gas company, regardless of his size or the amount of gas which he sells. Such a determination would almost certainly add another standard to Petitioners' consideration of proposed unitizations (and one *not* provided for by statute), whether unitization will tend to result in any lessee's becoming a natural gas company against his will.

A further complication with respect to unitization lies in the history of rate making by the Commission. Under its usual practice, rates are determined solely upon the basis of cost as determined for each seller.[18] Under unitization, each lessee owns an undivided interest in all gas produced anywhere in the unit, whether or not from the properties which were originally contributed by him. It would be sheer coincidence, and a most unlikely one at that, if the cost of any two lessees were exactly the same. Under regulation by the Commission, as it has heretofore been practiced, the gas produced from each well would be sold for as many different prices as there are lessees in the unit. In addition to presenting a staggering problem of determining rates for several hundred lessees in each unit, the mere prospect of such a proceeding would no doubt be sufficient to make further unitizations difficult or impossible where the principal market for the gas production is to an interstate pipe line.

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[17] There are also approximately 2500 royalty owners in this unit whose royalty payments would be affected by any regulation of the contract sales price of the gas (R. 910).

[18] Cf. *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U.S. 581 (1945); *Cities Service Gas Company* v. *Federal Power Commission*, 155 F. 2d 694 (10th Cir., 1946), cert. den. 329 U.S. 773.

Proration

Each of Petitioners is granted authority under the applicable statutes [19] to limit the production of gas to the market demand and determine the allowable production from each well. Under these statutes the entire market demand is prorated among all producers in the field and no one producer can be assured of being able to supply his own production. In Texas, for example, Jack K. Baumel, Chief Engineer of the Texas Railroad Commission, testified that it would be a "miracle" if any producers' allowable production was exactly what he needed to supply his own demand (R. 380).

The result is the absolute necessity for a free interchange or interconnecting of gas among producers in the field in order to assure each purchaser's ability to obtain the gas he needs to supply his demands. But such free interchange is practical only where producers may sell to any market without fear of being regulated as a natural gas company. Extraneous factors, such as whether the sale will be a sale for resale in interstate commerce subject to regulation and whether, once having begun a temporary sale to supply the short-term needs of an interstate transmission company, the sale may be abandoned without the consent of the Commission, will serve only to hinder and restrict the effectiveness of Petitioners' proration policies. Commissioner W. J. Murray, Jr., of the Texas Railroad Commission, testified that his Commission has already been faced with the fact that there is "considerable reluctance on the part of some and outright refusal on the part of other companies to tie into any pipe line that was under the jurisdiction of the Federal Power Commission for fear that by tying in they themselves might be subjected to the control of the Federal

[19] Art. 6008, Rev. Civ. Stat. of Tex. 1925 (as amended); Sec. 239, Title 52, Okl. Stat. 1951; Sec. 69-213, N. Mex. Stat. 1941 (1953 Supp.).

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Power Commission" (R. 473).[20] The point of his testimony was that in the future this free interchange will be even more important than it is today and that for this to come about it is essential that both producers and the Railroad Commission be able to operate free from the effects of regulation by the Commission (R. 470-476).

In addition to this effect of the Commission's jurisdiction upon the general workings of proration, there is great likelihood that regulation by the Commission would conflict with one of the specific powers of Texas to make proration workable. Under a specific statute,[21] the Texas Railroad Commission may prompt the necessary interconnecting by shutting in a producer who has an excess allowable over his market demand if it is found that such producer refuses to sell his gas at a reasonable price to a producer who has less allowable than his market demand. Fixation of prices by the Commission would usurp the Railroad Commission's functions in situations of this kind.

Ratable Taking of Gas

A correlary to Petitioners' proration powers is their authority to require the ratable taking of gas. In addition to being a conservation measure, this power also enables Petitioners to protect the correlative rights of owners of gas in a common reservoir. As the name implies, "ratable taking" means that an owner of a pipe line outlet must, where necessary for conservation or the protection of correlative rights, take gas ratably from wells of others as well as from his own. In order to enforce ratable taking, it is often necessary that the terms and conditions of the sale, including price, must be fixed by Petitioners where the

[20] This reluctance has been restated following the Court of Appeals' decision. Head, *Federal Control Can Flow Through Gas Lines,* The Petroleum Engineer, September, 1953, pp. A-37, A-51.

[21] Sec. 20, Art. 6008, Rev. Civ. Stat. Tex. 1925.

parties themselves cannot agree. An example of the problems which can arise in the enforcement of ratable taking is to be found in this Court's decision in *Republic Natural Gas Company* v. *Oklahoma,* 334 U. S. 62 (1948).

The questions raised in that case demonstrate that lacking authority with respect to the price, terms and conditions of the taking of the gas, the authority to regulate ratable taking as between producers, takers and purchasers would be ineffective. To give the Commission control over the price would be to take from Petitioners an essential element of the effectiveness of their regulation. As Commissioner Murray stated, it would "interfere gravely" with Petitioners' ability to provide for ratable taking (R. 475-476).

Saving of Casinghead Gas

Casinghead gas produced with oil presents Petitioners with one of their greatest problems. Since casinghead gas is produced as and when oil is produced, it cannot be shut in until it can more effectively and economically be gathered and marketed (R. 389). It must be gathered and marketed immediately. Gas well gas, which can be kept in the ground until needed, must not be allowed to fill markets which can be effectively served by the use of casinghead gas (R. 390). In the past, billions of cubic feet have been wasted (R. 431, 438, 524-525).

In order that the flaring of casinghead gas may be stopped, extensive and expensive gathering lines must be laid and in most instances, costly processing plants must be built in the field (R. 389). In recent years, Petitioners' efforts have substantially reduced the wastage of casinghead gas.[22] But

[22] In some instances the Texas Railroad Commission has found it necessary to adopt the drastic action of requiring that entire oil fields be shut in until a gas market is developed. For an example, see *Railroad Commission* v. *Sterling Oil & Refining Co.*, 147 Tex. 547, 218 SW 2d 415 (1949).

not all flaring has yet been stopped and much of the progress which has been made in recent years has been made practicable because of the increased value of the gas (R. 454). Future conservation measures to avoid this wastage will likewise be affected by the price of casinghead gas (R. 454-455). To give the Commission jurisdiction to limit the price of gas will seriously interfere with Petitioners' efforts to prevent the waste of casinghead gas.

Well Spacing

One of Petitioners' functions which is most directly related to price, and which will therefore be most directly affected by rate regulation by the Commission, is that of well spacing. Well spacing is directly controlled by the economics of drilling. Price is an important consideration in the determination of the size of the spacing unit. The record in this proceeding shows that Petitioners' well spacing activities are greatly affected by the "price of gas" (R. 515-516, 606, 610).

The reason that price has such a direct bearing upon well spacing is that the spacing to be established is the area which may be efficiently *and economically* drained by one well.[23] One of the important factors considered in determining what area one well will drain economically is the price which is to be expected for the gas which will be produced. If the producers can, at the expected price of gas, economically drill one well to each 160 acres, and one well will efficiently drain this area, then the drilling pattern established will be one well to each 160 acres. But if the Commission should later establish a lower price for gas, the producers may be economically able to drill only one well

[23] New Mexico statutes specifically so provide. Subsection b, Sec. 69-213½, Chap. 69, N. Mex. Stat. 1941 (1953 Supp.). In the other states, this is one of the factors considered in determining the size of the drilling units (R. 515, 605-606).

to each 320 acres, and the spacing must be changed. In the meantime, however, some producers will have drilled upon the basis of 160 acre spacing, rights will have been established, and it will be difficult if not impossible for the State regulatory agency to adjust all of these matters.

One of the essentials of successful well spacing is that the pattern be uniform. If the State must adjust the size of the drilling unit to conform to the change in economics, the pattern will lose uniformity. On the other hand, if the size of the drilling unit remains the same, many drilling units will not be drilled and the gas will be left in the ground. In either event, the objective of well spacing will be defeated.

Secondary Recovery Operations

The record in this case contains a brief but very lucid description of the various types of oil reservoirs and the important part which casinghead gas serves as a source of energy for recovering the oil (R. 391-398). Because of its importance as energy, more and more gas must go into secondary recovery operations and be returned to the reservoir in order that the energy needed to lift the more valuable oil will not be dissipated. The Railroad Commission of Texas, for example, has found it necessary on some occasions, and will find it necessary even more frequently in the future, to order that gas which is presently being marketed, much of it to interstate pipe lines, be withdrawn from that market and returned to the ground (R. 396, 403-404). It may even be necessary to use gas presently being marketed from one field for secondary recovery operations in a different field (R. 409).

Such an order is rarely an interference with contractual rights, since most contracts for the sale of residue gas from gasoline plants processing casinghead gas recognize that considerable volumes of residue gas must be returned to the leases. For this reason, these contracts provide that the

only gas which the seller is committed to sell is "surplus" gas, *i. e.*, gas which is not needed for lease uses. [24] But contractual rights to restrict deliveries and divert gas to other uses may not be controlling if the seller is declared to be a natural gas company because of the sale. At least one court has already construed a reduction in the quantity of gas delivered to be an abandonment of service under section 7(b) of the Act,[25] which is prohibited without the consent of the Commission. *Panhandle Eastern Pipe Line Company* v. *Michigan Consolidated Gas Company*, 177 F. 2d 942 (6th Cir., 1949). Another has indicated that contractual provisions of this type may be of no effect.[26]

If producers and gasoline plant operators must obtain the consent of the Commission before the quantity of deliveries can be reduced and gas diverted to such secondary recovery operations, the Commission will in effect have a veto power over Petitioners' orders requiring such operations. Even if Commission consent is obtained in every instance, the unavoidable delay inherent in securing such consent will seriously hinder Petitioners' in their efforts to secure the use of gas in such manner.

Greater Recovery—Avoidance of Premature Abandonment of Wells

To abandon oil and gas still in the ground is one of the most obvious forms of waste. It can come about either by failure to explore and develop marginal areas or by abandonment of productive wells before the ultimate in recovery has been attained. But the amount of gas that will

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[24] An example of this type of contract is the contract between Phillips and El Paso Natural Gas Company for the sale of residue gas from Phillips' Goldsmith Plant (R. 796-797).

[25] 15 U.S.C. Sec. 717 f(b).

[26] See *Mississippi Power & Light Co.* v. *Memphis Natural Gas Company*, 162 F. 2d 388 (5th Cir. 1947, cert. den. 332 U.S. 770), holding that a so-called favored-nation clause was inoperative.

be produced from any given reservoir depends to a great extent upon the price which can be obtained for the production. A low price means that marginal wells will not be drilled. The manner in which a well is equipped and the length of time it is produced are controlled by economics. Price is the determining factor.

Petitioners' definition of conservation is the attainment of maximum ultimate recovery (R. 437). Yet it has only been in recent years that here has been any intention of deliberately drilling for gas (R. 443-444). Throughout the record in this case the evidence shows that marginal areas will be drilled and wells produced to the fullest extent of their productive life only if the price is sufficient to provide an adequate incentive (R. 438-439, 459, 473-474, 532, 606-607). Thus, fixation of the price by the Commission would seriously conflict with the jurisdiction and authority of Petitioners to determine the economic limit of production and what shall be done to obtain the maximum recoverable gas.

C. *Upon The Basis of Petitioners' Evidence, The Commission Found As a Fact That Its Regulation Would Conflict and Interfere With Petitioners' Conservation Regulations.*

After finding upon the basis of other evidence before it that Phillips' operations consist of production and gathering (R. 1742), including the sales (R. 1744), the Commission considered the evidence presented by Petitioners. Upon the basis of this evidence, the Commission found:

> "In addition to the conclusions we have already reached, the evidence in this case supplies still another type of barrier to our regulation of Phillips' sales. Though technically consummated in interstate commerce, these sales are made 'during the course of production and gathering' and we expressly find that they are so closely connected with the local incidents of

that process as to render rate regulation by this Commission inconsistent or a substantial interference with the exercise by the affected States of their regulatory functions." (R. 1745).

Immediately following this finding, the Commission pointed out the specific reasons why this conflict would come about. The Commission found:

"In the first place, we affirm what is implicit in our order instituting this proceeding, namely, that if Phillips' sales were found to be jurisdictional, we would proceed with regulation of the rates charged. The impact of such regulation, in fixing just and reasonable rates under the Act, has consistently been to limit rates to an amount sufficient to recover costs plus no more than a reasonable return on actual legitimate investment.

"State regulation of the production and gathering of gas, on the other hand, is concerned with conservation; with the gathering and marketing of gas, particularly casinghead gas produced with oil, rather than flaring it; with the number, density, and location of wells in exploring and developing producing areas; with unitization of common sources of supply; and with requiring ratable taking of gas and protecting the correlative rights of the various owners, together with so-called common-purchaser statutes authorizing enforcement of nondiscriminatory taking and purchasing of gas on the part of purchasers. Regulation by Oklahoma, Texas, and New Mexico, respectively, encompasses all or part of the foregoing aspects.

"In varying degrees, the evidence clearly shows that our regulation of sales made in the process of production and gathering would, by its very nature, be inconsistent or constitute a substantial interference with such regulation of producers and gatherers by Oklahoma, Texas, and New Mexico. To cite one example, there is a direct relation between price and conservation, an important concern in the regulation of each of the States. Even though a producer be al-

lowed a reasonable return on actual legitimate investment, our fixing of maximum rates for his sales would run counter to State conservation efforts, through the fixing of minimum well-head prices or otherwise, to insure maximum recovery of gas prior to abandonment of the well. For the higher the profit, the longer it is economical to operate the well. And to the extent that the producer could obtain a profit higher than that permissible under our maximum-price regulation, the longer abandonment would be postponed. Similarly, the higher the price paid to the producer and gatherer, the easier it becomes for the State to discourage by regulation the flaring of gas and to encourage the gathering and marketing of such gas. (75) This is particularly true as to casinghead gas."

"(75) Additionally, it may be noted that the Supreme Court has observed that, 'Low valuation by the [Federal Power] Commission of producing properties or low-cost allowance for purchased gas discourages exploration for gas or its sale in interstate commerce.' Federal Power Commission v. Panhandle Eastern Pipe Line Co., 337 U.S. 498, 507 (1949)." (R. 1745-1747).

Aside from the fact that these findings are amply supported by the evidence and are therefore conclusive,[27] the real significance of these findings lies in the fact that they were made *by the very administrative agency to which Congress delegated the duty of administering the Natural Gas Act.* No other body knows its own regulations so well as the body which promulgates and administers them. No court can predict the effect of the Commission's regulations as accurately as the Commission itself. If this Court should hold that the Commission does have jurisdiction, then the effect of the decision would be a mandate to the Commis-

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[27] Natural Gas Act, Sec. 19(b), 15 U.S.C. §717 r(b).

sion to regulate in spite of the conflict which will inevitably exist.

Respondents argued before the Commission and in the court below that since there are a number of interstate pipe line companies which produce and gather gas which are regulated by the Commission, and since there had been no conflicts between the states and the Commission in the exercise of their respective regulatory powers over these companies, there would be no conflict if the Commission should regulate Phillips as a natural gas company.

There are several obvious answers to that contention, viz.:

(1) The contention merely relates to the weight of the evidence upon which the Commission's finding of fact is based. Since there is substantial evidence to support the finding that conflict and interference with state regulatory authority would result from the Commission's regulation of Phillips' sales, the finding is made conclusive by Section 19(b) of the Act. [28]

(2) There is no evidence that the Commission has ever regulated any sales by pipe line companies made during or immediately upon completion of production and gathering, such as here proposed. Regulation of a pipe line company's sales at the end of transportation can have only an indirect impact upon its production and gathering activities since the great bulk of its capital investment is in transportation facilities which serve as a cushion between its sales prices of gas and its production and gathering functions. To assume an extreme example, even though there were no allowance whatever for gas in the field or for the costs of producing and gathering it, the result might be only a slightly lower rate of return upon a pipe line company's entire investment,

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[28] Natural Gas Act, 15 U.S.C. Sec. 717 r(b).

but still leaving ample funds to comply with state regulatory orders. On the other hand, regulation of sales of an independent producer and gatherer will have a direct and immediate impact upon production and gathering. The independent has no transportation investment to absorb the shock between the reduced sales price and its production and gathering business.

Therefore, the absence of evidence of conflict or interference with state regulation of production and gathering resulting from Federal Power Commission regulation of sales prices of pipe line companies at the end of transportation furnishes no basis for any conclusion with respect to the effect of the Commission's regulation of sales by an independent producer and gatherer, such as Phillips, upon state regulation of production and gathering.

II

THE COURT BELOW ERRED IN REFUSING TO GIVE EFFECT TO THE COMMISSION'S FINDING THAT ITS REGULATION OF PHILLIPS' SALES WOULD CONFLICT AND SUBSTANTIALLY INTERFERE WITH STATE REGULATORY AUTHORITY.

A. *The Court Failed to Recognize the Importance of Conservation*

So far as Petitioners are concerned, the primary error of the Court of Appeals was its failure to recognize and appreciate the part to be played by the producing states in the scheme of regulation under the Natural Gas Act. The Court of Appeals treated the Act as nothing more than another of the devices adopted by legislative bodies to control a familiar public service function where price alone is the important consideration. It viewed the Act as though the whole field covered by the natural gas industry is as susceptible to normal utility regulation as the long line transportation segment. In so doing, it failed

to realize that the commodity with which the Act deals is an exhaustible resource, one which when used can never be replaced, and one which requires constant vigil to preserve existing supplies and continuing efforts to discover new sources of supply if it is to be of lasting benefit. The court completely overlooked the fact that conservation of gas is as important to the consumer as control of rates—machinery for controlling rates can serve no purpose if there is no gas to be sold. It was this basic oversight which we believe led the Court of Appeals to hold that conflict with state conservation policies and programs is immaterial and to intimate that no such conflict could be shown (R. 1848, note 11).

The necessity for the continued effectiveness of state conservation policies and programs is demonstrated by the evidence in this proceeding, by the provisions of the Act itself, and by this Court's decisions dealing with natural gas under the Act, and elsewhere. The evidence in this proceeding is particularly forceful in this regard. Commissioner Murray of the Texas Railroad Commission testified that:

> "If you are going to come down here and freeze a low price, then that would work to your temporary advantage. I am saying you now are representing the consumers up there, but pretty soon—that is the one thing we ran into, the courts nearly knocked our orders out on, this flared gas, because we were ordering them to do something that they could show had to be done at a loss, and by the rise in price that has taken place in the last few years, it has made it possible for us to get this billions of feet of casinghead gas utilized.
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> "You say your consumers are paying the bill. What is a few cents a thousand when we market that gas down here—I don't know what you pay, but a few cents a thousand isn't a very big percentage of your retail price up there. The cost of transporting it and all is so much bigger than three cents, or five cents or ten

cents a thousand, and yet it means a difference down here, whether we can afford to save it and whether we can afford to drill for it and develop it. What are you going to do if we can't afford to keep on developing our gas? You'll have to double your price in order to amortize your pipe line over a short period of time and then you are out of gas.

"I am representing the Railroad Commission and we are intervening in this case, but we don't stand in Phillips' shoes here and we don't expect them to accept everything we say. Heck, we have a lot of controversy with Phillips down here. Our duty is to the consumer. There are a devil of a lot more consumers in Texas than producers, but our duty is to see they have a supply of gas over the years, and we think we are looking after the interest of consumers in Wisconsin just as much as we are in Texas."

This Court has likewise pointed out that price to the consumer is not the all-important criteria. In *Cities Service Gas Company* v. *Peerless Oil & Gas Co.*, 340 U. S. 179, 180-188 (1950), in upholding Oklahoma's minimum price regulation as a conservation measure, this Court said:

"That a legitimate local interest is at stake in this case is clear. A state is justifiably concerned with preventing rapid and uneconomic dissipation of one of its chief natural resources. The contention urged by appellant that a group of private producers and royalty owners derive substantial gain from the regulations does not contradict the established connection between the orders and a statewide interest in conservation. Cf. *Thompson* v. *Consolidated Gas Co.*, 300 U. S. 55 (1937).

"We recognize that there is also a strong national interest in natural gas problems. But it is far from clear that on balance such interest is harmed by the state regulations under attack here. Presumably all consumers, domestic and industrial alike, want to obtain natural gas as cheaply as possible. On the other hand, groups connected with the production and transporta-

tion of competing fuels complain of the competition of cheap gas. Moreover, the wellhead price of gas is but a fraction of the price paid by domestic consumers at the burner-tip, so that the field price as herein set may have little or no effect on the domestic delivered price. Some industrial consumers, who get bargain rates on gas for 'inferior' uses, may suffer. But strong arguments have been made that the national interest lies in preserving this limited resource for domestic and industrial uses for which natural gas has no completely satisfactory substitute. See generally, Federal Power Commission, Natural Gas Investigation (1948); *Federal Power Comm'n* v. *Hope Natural Gas Co.*, 320 U. S. 591, 657-660 (1944) (dissenting opinion). Insofar as conservation is concerned, the national interest and the interest of producing states may well tend to coincide. In any event, in a field of this complexity with such diverse interests involved, we cannot say that there is a clear national interest so harmed that the state price-fixing orders here employed fall within the ban of the Commerce Clause. *Parker* v. *Brown, supra; Milk Control Board* v. *Eisenberg Farm Products, supra.*"

Congress also was fully aware of the value of state conservation programs. Not only does Section 1 (b) of the Act exclude production and gathering from the Commission's jurisdiction, but Section 11 [29] specifically provides that the Commission shall serve as a coordinating agent in the furtherance of state compacts dealing with conservation. This expressed intent of Congress was fully recognized by this Court in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 507 (1949), where this Court said:

"Before the Colorado Interstate decision, it was apparent that the value of producing facilities and cost of

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[29] 15 U.S.C. 717 j.

> gas bought by a natural gas company from producers would be weighty factors in rate making whether a rate-base method or other method for fixing rates was used. Low valuation by the Commission of producing properties or low-cost allowance for purchased gas discourages exploration for gas or its sale in interstate commerce. Congress knew this necessary relationship between production and distribution but excluded the Commission from exercising any direct control or regulation over the actual production and gathering of natural gas."

The Court of Appeals brushed aside as "immaterial" the finding of the Commission that its regulation of Phillips' sales would conflict and interfere with the exercise of the states' regulatory authority over production and gathering. The court did this because of its determination as a matter of law that Phillips' sales were made after production and gathering had been completed and, therefore, it reasoned that the sales could not be made "during the course of production and gathering" and the test laid down in the *Interstate* case did not apply. This line of reasoning is fallacious in several respects:

(1) In holding that gathering ended prior to the time the gas was delivered to the pipe line company the court exceeded its power in view of the finding to the contrary by the Commission.[30] (See *infra*, pp. 40-44.)

(2) It is incredible that this Court intended to lay down a test for excluding sales from the jurisdiction of the Commission under conditions having no practical application. Such would be the case, however, if this Court's language in the *Interstate* case should be construed so narrowly as

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[30] *Gray* v. *Powell*, 314 U.S. 402.

to exclude from the protection of the rule sales made as the last step in the gathering process. The great preponderance of sales by producers and gatherers are made at the end of production or at the end of gathering. Rarely are they made in the middle of either. And despite the Court of Appeals' interpretation to the contrary (205 F. 2d 706, 710, Note 9) there is no basis in the Act for distinguishing between sales at the end of gathering and sales at the end of production. Yet the Court of Appeals says in effect that it is not enough that sales be made as the culmination of gathering; it says that gathering must continue after the sale in order to be made "during" production or gathering within the meaning of this Court's language in the *Interstate* case.

Such an interpretation would be directly contrary to this Court's expression in the *Interstate* case that the states were to have "full freedom" to regulate in areas in which they are constitutionally competent to act. They will not have "full freedom" to regulate production and gathering even in the narrowest concept of those terms if the Federal Power Commission is privileged to strangle those operations by limiting the revenue that may be derived from them. This strangulation can occur just as effectively at the end of those functions as in the middle.

(3) As Justice Clark said in his dissenting opinion (205 F. 2d 706, 714-715), it appears probable that this Court meant "or" when it said "and" in the expression:

> "Thus, where sales, though technically consummated in interstate commerce, are made during the course of production and gathering, *and* are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the juris-

> diction of the Federal Power Commission does not attach." (331 U. S. 690.)

It is not difficult to conceive of a situation where transportation has intervened before the sale but where the transportation is so slight that regulation of the sales would be tantamount to regulating the sales at the end of gathering so far as the impact upon state regulatory authority of production and gathering is concerned. It probably was that kind of situation which this Court had in mind. If the sales are made "during the course of production and gathering" the impact of federal regulation would be so direct and obvious as not to require proof of conflict and interference with state authority.

The Court of Appeals evidently felt unsure of its conclusion that the sales were not made during the course of production and gathering for the court went on to say that it did not imply that it believed the findings of conflict by the Commission supportable. The court then continued:

> "On the contrary, as the Supreme Court has held, federal protection of consumers against exorbitant rates is not inconsistent with the exercise by the producing state of its regulatory functions. *Interstate Natural Gas* case, *supra*" (R. 1848, note 11).

Nothing in the *Interstate* case supports that statement. The holding is squarely to the contrary. This Court, recognizing the importance of conservation, clearly said that under the circumstances of conflict which the Commission found exist here, the jurisdiction of the Commission does not attach (331 U. S. at 690).

B. *The Commission's Finding That the Sales were Made During the Course of Production and Gathering Should be Accepted by the Court.*

The Court of Appeals concluded that "Phillips sells the gas after the time and beyond the place at which produc-

tion and gathering are complete and after processing has intervened" (R. 1842). This conclusion was in the face of and contrary to the Commission's express findings that such sales are a part of production and gathering (R. 1744) and that they are made "during the course of production and gathering" (R. 1745). The Commission also found that Phillips' gathering operations include the movement through "the relatively short lines leading from the point where processing is partly or finally completed, to the various points where sale or delivery or both take place" (R. 1743). These were the lines, which the Commission had found to be a part of the gathering process, upon which the Court of Appeals rested its conclusion that Phillips' sales are made after gathering is completed.

The lower court attempted to avoid the conclusive effect of the Commission's findings [31] by holding that what constitutes gathering is a question of law. If the court thought that the question was converted to one of law because there was no dispute as to the details of Phillips' operations, such as the movement of the gas and the location of the various points of delivery, then the court was clearly in error. In *Gray* v. *Powell*, 314 U. S. 402, 412 (1941), this Court said:

> "Although we have here no dispute as to the evidentiary facts, that does not permit a court to substitute its judgment for that of the Director. *United States* v. *Louisville & Nashville R. Co.*, 235 U. S. 314, 320; *Swayne & Hoyt, Ltd.* v. *United States*, 300 U. S. 297, 304; *Helvering* v. *Clifford*, 309 U. S. 331, 336."

It is true that the Court must first decide, as a matter of law, whether by using the term "production and gathering"

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[31] Sec. 19(b) of the Natural Gas Act, 15 U.S.C. 717 r(b), provides: "The finding of the Commission as to the facts, if supported by substantial evidence, shall be conclusive."

Congress intended these words to have a meaning understood in the natural gas industry, or whether Congress intended they should have some other meaning. But that question is easily answered. It is a well-established rule of statutory construction that where words are used in a statute that have both a popular and a trade or technical meaning, and as used in the statute they have reference to a trade or profession, these words in construing the statute should be given their meaning as understood by the trade or profession to which they apply.[32] As this court said in *United States* v. *Maher*, 307 U. S. 148, 155 (1939), "The recognized practices of an industry give life to the dead words of a statute dealing with it." All parties proceeded on that theory and introduced testimony before the Commission bearing upon that fact (R. 311, 368-369, 680-681, 691, 699-700). There being substantial evidence to support the Commission's findings, the Court should accept it.[33]

The question of what meaning the words "production or gathering" have in the oil and gas industry falls within the province of the Commission and not of the courts. If there be any doubt on that point it is quickly resolved by still another provision of the Act. Section 16[34] provides that the Commission shall have the power to prescribe rules and regulations necessary to carry out the Act. With respect to the definition of terms, that section specifically provides: "Among other things, such rules and regulations may define accounting, technical, and trade terms used in this act; * * *". Production and gathering are undoubtedly trade terms.

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[32] *O'Hara* v. *Luckenbach S. S. Co.*, 269 U.S. 364, 370 (1926); *Order of Railway Conductors* v. *Swan*, 329 U.S. 520 (1947); *Carter* v. *Liquid Carbonic Pacific Corp.*, 97 F. 2d 1 (9th Cir. 1938); *Roberts* v. *Tenn. Coal, Iron & R. Co.*, 255 Fed. 469 (5th Cir. 1919), cert. den., 250 U.S. 659.

[33] Natural Gas Act, Sec. 19(b), 15 U.S.C. 717r(b).

[34] 15 U.S.C. Sec. 717o.

Congress having entrusted the initial definition of these terms to the Commission, the reviewing court's function is limited to the determination of whether the Commission's interpretation has " 'warrant in the record' and a reasonable basis in law." *National Labor Relations Board* v. *Hearst Publications, Inc.*, 322 U. S. 111, 131 (1944). As this Court said in *Unemployment Compensation Commission* v. *Aragon*, 329 U. S. 143, 153-154 (1946):

> "Here, as in *Labor Board* v. *Hearst Publications, Inc.*, 322 U. S. 111, 131 (1944), the question presented 'is one of specific application of a broad statutory term in a proceeding in which the agency administering the statute must determine it initially.' To sustain the Commission's application of this statutory term, we need not find that its construction is the only reasonable one, or even that it is the result we would have reached had the question arisen in the first instance in judicial proceedings. 'The reviewing court's function is limited.' All that is needed to support the Commission's interpretation is that it has 'warrant in the record' and a 'reasonable basis in law'."

The Commission's application of "production and gathering" is the same application, and entitled to the same finality, as the application of the term "producer" in *Gray* v. *Powell*, 314 U. S. 402 (1941), as the term "labor dispute" in *Unemployment Compensation Commission* v. *Aragon*, 329 U. S. 143 (1946), and as the phrase "arising out of and in the course of employment" in *Cardillo* v. *Liberty Mutual Co.*, 330 U. S. 469, 478 (1947). It is precisely parallel with the determination of the meaning of "transportation" in *United States* v. *Wabash R. Co.*, 321 U. S. 403, 408, (1944), and *Adams* v. *Mills*, 286 U. S. 397, 409-410 (1932), which this Court held was a question of fact which was to be sustained if supported by substantial evidence.

Further, as we have pointed out earlier, *supra*, p. 41, even considering that what constitutes gathering is a ques-

tion of law, the decision of the Court of Appeals is out of harmony with this Court's decision in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Company*, 337 U. S. 498, (1949), in which this Court refused to construe the term "production or gathering" narrowly, but held that it should be construed to exclude from regulation by the Commission matters incident or related to those functions. Applied to the *Interstate* case, this means that "during the course of" includes not only everything done from the beginning to and including the end of production and gathering, but everything incident or related to those functions as well. Certainly this would include a sale as the end product of production and gathering, exactly as was found by the Commission in its order (R. 1744).

Conclusion

For the reasons stated, we respectfully submit that rate regulation by the Commission of the sales by independent producers and gatherers would be inconsistent and a substantial interference with the exercise by Petitioners of their regulatory functions. The Commission was, therefore, correct in its decision that it does not have jurisdiction over Phillips Petroleum Company and the decision of the Court of Appeals reversing the Commission should be reversed and the order of the Commission sustained.

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APPENDIX A

Pertinent Provisions of Statute

NATURAL GAS ACT OF JUNE 21, 1938, 52 STAT. 821-833; AS AMENDED FEBRUARY 7, 1942, 61 STAT. 459

Section 1. (a) As disclosed in reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.

(b) The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas. [52 Stat. 821 (1938); 15 U. S. C. § 717 (1946)]

Sec. 2. When used in this act, unless the context otherwise requires—

* * * * *

(6) "Natural-gas company" means a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale.

* * * * *

Sec. 4. (a) All rates and charges made, demanded, or received by any natural-gas company for or in connection with the transportation or sale of natural gas subject to the jurisdiction of the Commission, and all rules and regu-

lations affecting or pertaining to such rates or charges, shall be just and reasonable, and any such rate or charge that is not just and reasonable is hereby declared to be unlawful.

(b) No natural-gas company shall, with respect to any transportation or sale of natural gas subject to the jurisdiction of the Commission, (1) make or grant any undue preference or advantage to any person or subject any person to any undue prejudice or disadvantage, or (2) maintain any unreasonable difference in rates, charges, service, facilities, or in any other respect, either as between localities or as between classes of service.

(c) Under such rules and regulations as the Commission may prescribe, every natural-gas company shall file with the Commission, within such time (not less than sixty days from the date this act takes effect) and in such form as the Commission may designate, and shall keep open in convenient form and place for public inspection, schedules showing all rates and charges for any transportation or sale subject to the jurisdiction of the Commission, and the classifications, practices, and regulations affecting such rates and charges, together with all contracts which in any manner affect or relate to such rates, charges, classifications, and services.

(d) Unless the Commission otherwise orders, no change shall be made by any natural-gas company in any such rate, charge, classification, or service, or in any rule, regulations or contract relating thereto, except after thirty days' notice to the Commission and to the public. Such notice shall be given by filing with the Commission and keeping open for public inspection new schedules stating plainly the change or changes to be made in the schedule or schedules then in force and the time when the change or changes will go into effect. The Commission, for good cause shown, may allow changes to take effect without requiring the thirty days' notice herein provided for by an order specifying the changes so to be made and the time when they shall take effect and the manner in which they shall be filed and published.

(e) Whenever any such new schedule is filed the Commission shall have authority, either upon complaint of any State, municipality, or State commission, or upon its own

initiative without complaint, at once, and if it so orders, without answer or formal pleading by the natural-gas company, but upon reasonable notice, to enter upon a hearing concerning the lawfulness of such rate, charge, classification, or service; and, pending such hearing and the decision thereon, the Commission, upon filing with such schedules and delivery to the natural-gas company affected thereby a statement in writing of its reasons for such suspension, may suspend the operation of such schedule and defer the use of such rate, charge, classification, or service, but not for a longer period than five months beyond the time when it would otherwise go into effect: *Provided*, That the Commission shall not have authority to suspend the rate, charge, classification, or service for the sale of natural gas for resale for industrial use only; and after full hearings, either completed before or after the rate, charge, classification, or service goes into effect, the Commission may make such orders with reference thereto as would be proper in a proceeding initiated after it had become effective. If the proceeding has not been concluded and an order made at the expiration of the suspension period, on motion of the natural-gas company making the filing, the proposed change of rate, charge, classification, or service shall go into effect. Where increased rates or charges are thus made effective, the Commission may, by order, require the natural-gas company to furnish a bond, to be approved by the Commission, to refund any amounts ordered by the Commission, to keep accurate accounts in detail of all amounts received by reason of such increase, specifying by whom and in whose behalf such amounts were paid, and, upon completion of the hearing and decision, to order such natural-gas company to refund, with interest, the portion of such increased rates or charges by its decision found not justified. At any hearing involving a rate or charge sought to be increased, the burden of proof to show that the increased rate or charge is just and reasonable shall be upon the natural-gas company, and the Commission shall give to the hearing and decision of such questions preference over other questions pending before it and decide the same as speedily as possible. [52 Stat. 822 (1938); 15 U. S. C. 717c (1946)]

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SEC. 5. (a) Whenever the Commission, after a hearing had upon its own motion or upon complaint of any State, municipality, State commission, or gas distributing company, shall find that any rate, charge, or classification demanded, observed, charged, or collected by any natural-gas company in connection with any transportation or sale of natural gas, subject to the jurisdiction of the Commission, or that any rule, regulation, practice, or contract affecting such rate, charge, or classification is unjust, unreasonable, unduly discriminatory, or preferential, the Commission shall determine the just and reasonable rate, charge, classification, rule, regulation, practice, or contract to be thereafter observed and in force, and shall fix the same by order: *Provided, however,* That the Commission shall have no power to order any increase in any rate contained in the currently effective schedule of such natural gas company on file with the Commission, unless such increase is in accordance with a new schedule filed by such natural gas company; but the Commission may order a decrease where existing rates are unjust, unduly discriminatory, preferential, otherwise unlawful, or are not the lowest reasonable rates.

(b) The Commission upon its own motion, or upon the request of any State commission, whenever it can do so without prejudice to the efficient and proper conduct of its affairs, may investigate and determine the cost of the production or transportation of natural gas by a natural-gas company in cases where the Commission has no authority to establish a rate governing the transportation or sale of such natural gas. [52 Stat. 823 (1938); 15 U. S. C. 717d (1946)].

* * * * *

SEC. 7. (a) Whenever the Commission, after notice and opportunity for hearing, finds such action necessary or desirable in the public interest, it may by order direct a natural-gas company to extend or improve its transportation facilities to establish physical connection of its transportation facilities with the facilities of, and sell natural gas to, any person or municipality engaged or legally authorized to engage in the local distribution of natural or artificial gas to the public, and for such purpose to extend its transportation facilities to communities immediately adjacent to

such facilities or to territory served by such natural-gas company, if the Commission finds that no undue burden will be placed upon such natural-gas company thereby: *Provided*, That the Commission shall have no authority to compel the enlargement of transportation facilities for such purposes, or to compel such natural-gas company to establish physical connection or sell natural gas when to do so would impair its ability to render adequate service to its customers. [52 Stat. 824 (1938); 15 U. S. C. 717f (a) (1946)]

(b) No natural-gas company shall abandon all or any portion of its facilities subject to the jurisdiction of the Commission, or any service rendered by means of such facilities, without the permission and approval of the Commission first had and obtained, after due hearing, and a finding by the Commission that the available supply of natural gas is depleted to the extent that the continuance of service is unwarranted, or that the present or future public convenience or necessity permit such abandonment. [52 Stat. 824 (1938); 15 U. S. C. 717f (b) (1946)]

(c)[1] No natural-gas company or person which will be a natural-gas company upon completion of any proposed construction or extension shall engage in the transportation or sale of natural gas, subject to the jurisdiction of the Commission, or undertake the construction or extension of any facilities therefor, or acquire or operate any such facilities or extensions thereof, unless there is in force with respect to such natural-gas company a certificate of public convenience and necessity issued by the Commission authorizing such acts or operations: *Provided, however,* That if any such natural-gas company or predecessor in interest was bona fide engaged in transportation or sale of natural gas, subject to the jurisdiction of the Commission, on the effective date of this amendatory Act, over the route or routes or within the area for which application is made and has so operated since that time, the Commission shall issue such certificate without requiring further proof that public convenience and necessity will be served by such operation, and without further proceedings, if application for such cer-

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[1] Subsection 7 (c) was amended February 7, 1942 by Public Law No. 444, 77th Congress, Chapter 49, 2d Session [H. R. 5249], 56 Stat. 83.

tificate is made to the Commission within ninety days after the effective date of this amendatory Act. Pending the determination of any such application, the continuance of such operation shall be lawful.

In all other cases the Commission shall set the matter for hearing and shall give such reasonable notice of the hearing thereon to all interested persons as in its judgment may be necessary under rules and regulations to be prescribed by the Commission; and the application shall be decided in accordance with the procedure provided in subsection (e) of this section and such certificate shall be issued or denied accordingly: *Provided, however,* That the Commission may issue a temporary certificate in cases of emergency, to assure maintenance of adequate service or to serve particular customers, without notice of hearing, pending the determination of an application for a certificate, and may by regulation exempt from the requirements of this section temporary acts or operations for which the issuance of a certificate will not be required in the public interest. [52 Stat. 825 (1938), as amended, 56 Stat. 83 (1942); 15 U.S.C. § 717f (c) (1946)].[2]

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[2] As originally enacted June 21, 1938 by Public Law No. 688, 75th Congress, Chapter 556, 3d Session [H. R. 6586], 52 Stat. 825, Section 7 (c) read as follows:

"(c) No natural-gas company shall undertake the construction or extension of any facilities for the transportation of natural gas to a market in which natural gas is already being served by another natural-gas company, or acquire or operate any such facilities or extensions thereof, or engage in transportation by means of any new or additional facilities, or sell natural gas in any such market, unless and until there shall first have been obtained from the Commission a certificate that the present or future public convenience and necessity require or will require such new construction or operation of any such facilities or extensions thereof: *Provided, however,* That a natural-gas company already serving a market may enlarge or extend its facilities for the purpose of supplying increased market demands in the territory in which it operates. Whenever any natural-gas company shall make application for a certificate of convenience and necessity under the provisions of this subsection, the Commission shall set the matter for hearing and shall give such reasonable notice of the hearing thereon to all interested persons as in its judgment may be necessary under rules and regulations to be prescribed by the Commission.

SEC. 11. (a) In case two or more States propose to the Congress compacts dealing with the conservation, production, transportation, or distribution of natural gas it shall be the duty of the Commission to assemble pertinent information relative to the matters covered in any such proposed compact, to make public and to report to the Congress information so obtained, together with such recommendations for further legislation as may appear to be appropriate or necessary to carry out the purposes of such proposed compact and to aid in the conservation of natural-gas resources within the United States and in the orderly, equitable, and economic production, transportation, and distribution of natural gas.

(b) It shall be the duty of the Commission to assemble and keep current pertinent information relative to the effect and operation of any compact between two or more States heretofore or hereafter approved by the Congress, to make such information public, and to report to the Congress, from time to time, the information so obtained together with such recommendations as may appear to be appropriate or necessary to promote the purposes of such compact.

(c) In carrying out the purposes of this act, the Commission shall, so far as practicable, avail itself of the services, records, reports, and information of the executive departments and other agencies of the Government, and the President may, from time to time, direct that such services and facilities be made available to the Commission. [52 Stat. 827 (1938); 15 U.S.C. 717j (1946)]

* * * * *

In passing on applications for certificates of convenience and necessity, the Commission shall give due consideration to the applicant's ability to render and maintain adequate service at rates lower than those prevailing in the territory to be served, it being the intention of Congress that natural gas shall be sold in interstate commerce for resale for ultimate public consumption for domestic, commercial, industrial, or any other use at the lowest possible reasonable rate consistent with the maintenance of adequate service in the public interest." (52 Stat. 825 (1938))

Public Law No. 444, 77th Congress, Chapter 49, 2d Session [H. R. 5249], 56 Stat. 83, which amended Section 7 (c), effective February 7, 1942, was enacted after the Commission's decision *In the Matter of Kansas Pipe Line & Gas Company*, 2 F. P. C. 29.

SEC. 16. The Commission shall have power to perform any and all acts, and to prescribe, issue, make, amend, and rescind such orders, rules, and regulations as it may find necessary or appropriate to carry out the provisions of this act. Among other things, such rules and regulations may define accounting, technical, and trade terms used in this act; and may prescribe the form or forms of all statements, declarations, applications, and reports to be filed with the Commission, the information which they shall contain, and the time within which they shall be filed. Unless a different date is specified therein, rules and regulations of the Commission shall be effective thirty days after publication in the manner which the Commission shall prescribe. Orders of the Commission shall be effective on the date and in the manner which the Commission shall prescribe. For the purposes of its rules and regulations, the Commission may classify persons and matters within its jurisdiction and prescribe different requirements for different classes of persons or matters. All rules and regulations of the Commission shall be filed with its secretary and shall be kept open in convenient form for public inspection and examination during reasonable business hours. [52 Stat. 830 (1938); 15 U.S.C. 717o (1946)]

* * * * *

SEC. 19. (b) Any party to a proceeding under this act aggrieved by an order issued by the Commission in such proceeding may obtain a review of such order in the circuit court of appeals of the United States for any circuit wherein the natural-gas company to which the order relates is located or has its principal place of business, or in the United States Court of Appeals for the District of Columbia, by filing in such court, within sixty days after the order of the Commission upon the application for rehearing, a written petition praying that the order of the Commission be modified or set aside in whole or in part. A copy of such petition shall forthwith be served upon any member of the Commission and thereupon the Commission shall certify and file with the court a transcript of the record upon which the order complained of was entered. Upon the filing of such transcript such court shall have exclusive jurisdiction to

affirm, modify, or set aside such order in whole or in part. No objection to the order of the Commission shall be considered by the court unless such objection shall have been urged before the Commission in the application for rehearing unless there is reasonable ground for failure so to do. The finding of the Commission as to the facts, if supported by substantial evidence, shall be conclusive. If any party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for failure to adduce such evidence in the proceedings before the Commission, the court may order such additional evidence to be taken before the Commission and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The Commission may modify its findings as to the facts by reason of the additional evidence so taken, and it shall file with the court such modified or new findings, which if supported by substantial evidence, shall be conclusive, and its recommendation, if any, for the modification or setting aside of the original order. The judgment and decree of the court, affirming, modifying, or setting aside, in whole or in part, any such order of the Commission, shall be final, subject to review by the Supreme Court of the United States upon certiorari or certification as provided in sections 239 and 240 of the Judicial Code, as amended (U.S.C., title 28, secs. 346 and 347).

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HAROLD B. WILLEY, Clerk

No. 281

In The Supreme Court of the United States

OCTOBER TERM 1953

STATE OF TEXAS *et al.*,
Petitioners,

VERSUS

STATE OF WISCONSIN *et al.*,
Respondents.

PETITION FOR REHEARING OF ORDER DENYING PETITION FOR WRIT OF CERTIORARI

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DECEMBER, 1953.

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In The
Supreme Court of the United States

OCTOBER TERM 1953

No. 281

STATE OF TEXAS AND THE RAILROAD COMMISSION OF TEXAS; CORPORATION COMMISSION OF TEXAS; CORPORATION COMMISSION OF OKLAHOMA; AND STATE OF NEW MEXICO AND OIL CONSERVATION COMMISSION OF NEW MEXICO,

Petitioners,

VERSUS

STATE OF WISCONSIN AND PUBLIC SERVICE COMMISSION OF WISCONSIN; CITY OF MILWAUKEE, WISCONSIN; COUNTY OF WAYNE, MICHIGAN; AND THE FEDERAL POWER COMMISSION,

Respondents.

PETITION FOR REHEARING OF ORDER DENYING PETITION FOR WRIT OF CERTIORARI

Petitioners, interveners in the court below, pray that this Court grant a rehearing of its order of November 30,

1953, denying the Petition for Writ of Certiorari filed herein on August 20, 1953, and further pray that upon rehearing a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the District of Columbia Circuit in this case as prayed for in the Petition.

REASONS FOR GRANTING A REHEARING AND ISSUING THE WRIT

I.

The question presented is one of utmost and immediate importance to petitioners and to all other States in which oil and gas are produced, as well as to producers and gatherers, and to the consumers of gas. Regarding the investigation instituted by the Federal Power Commission against Phillips Petroleum Company as a test case that would determine whether Federal authority would be extended to sales of gas to interstate pipe lines by independent producers and gatherers, and believing that such extension of Federal authority would seriously interfere and conflict with petitioners' regulation of production and gathering, petitioners severally intervened before the Federal Power Commission and again before the Court of Appeals, and opposed such extension of authority. Other producing States likewise intervened before the Federal Power Commission and opposed regulation of independent producers and gatherers, but were not allowed to present evidence because none of the gas

immediately involved in the proceeding was produced in those States (R. 1686-1687). The widespread interest and concern of the producing States in the question presented is evidenced by the resolution adopted at the quarterly business meeting of the Interstate Oil Compact Commission,[1] composed of 26 producing States, on December 5, 1951, after the denial of certiorari by this Court. The full text of the resolution is quoted below:

"WHEREAS, it has come to the attention of the Commission that a Decree has been entered by a two to one decision of the Court of Appeals for the District of Columbia Circuit which has held that the jurisdiction of the Federal Power Commission, under the terms of the Natural Gas Act, extends to sales of natural gas by producers and gatherers, overruling a previous holding by the Federal Power Commission itself that it did not have such jurisdiction.

"WHEREAS, it is the opinion of this Commission that extension of such jurisdiction permitting partial regulation of the production and gathering of natural gas will, as the Federal Power Commission found and stated as a fact, substantially interfere with state regulation of production and gathering of natural gas;

"WHEREAS, the power to regulate and control natural resources traditionally rests in the several states; which power with respect to oil and gas was affirmed by the Congress in the Act establishing the Interstate Oil Compact Commission; and with re-

[1] Interstate Oil Compact Commission is an organization composed of those producing States whose Legislatures have approved the signing on behalf of the State of the Interstate Compact to conserve oil and gas. Consent of Congress to the Compact has been obtained and renewed from time to time. The consent of Congress, presently extends to four years from September 1, 1951. Public Law 128, Chapter 350, 82nd Congress, First Session (65 Stat. 199).

spect to natural gas was reaffirmed by the Congress in the Natural Gas Act;

"WHEREAS, in the opinion of this Commission, partial regulation by a federal agency in this field can only lead to one of two results:

(a) Hopeless confusion, conflicts and undue and unjust burdens on the operators, producers and gatherers; or

(b) Ultimate complete federal regulation in the oil and gas field.

"WHEREAS, it is the opinion of this Commission that the production of natural gas and the production of oil are so closely allied and associated that federal regulation of the production of natural gas would inevitably result in regulation of the production of oil by the same authority.

"NOW, THEREFORE, BE IT RESOLVED by the Interstate Oil Compact Commission in business session convened at Oklahoma City, Oklahoma, this 5th day of December, 1953, that the Commission do now call the seriousness of the situation to the attention of its member states and urge them to take every step possible to secure the reversal of the aforesaid Decree."

II.

Believing that the language of the decision of the Court of Appeals for the Fifth Circuit in the *Interstate case*, 156 F. 2d 949, threatened an extension of Federal authority over sales by independent producers and gatherers to interstate pipe lines, two of the three petitioners here—the States of Texas and Oklahoma—filed briefs *amici curiae* and presented oral argument before this

Court upon review of that decision 331 U.S. 682. Counsel for the Federal Power Commission, both in their brief and in oral argument, distinguished sales made by a natural gas company such as Interstate from sales by independent producers and gatherers and denied that regulation of Interstate's sales would result in extension of Federal regulatory authority to sales by independent producers and gatherers. This Court recognized the distinction and reserved for future consideration the question here presented when it said (331 U.S. 682, 690, 691, footnote 18):

> "The Federal Power Commission has not asserted jurisdiction over all sales taking place in the natural gas fields even though in interstate commerce for resale for ultimate public consumption. In the Matter of Columbian Fuel Corp., 2 F.P.C. 200; In the Matter of Billings Co., 2 F.P.C. 288. We express no opinion as to the validity of the jurisdictional tests employed by the Commission in these cases."[2]

Moreover, in laying down the rule concerning the authority of the Federal Power Commission over sales by a natural gas company, such as Interstate, made during the course of production and gathering, this Court said that if proof were made that Federal regulation of such sales would be inconsistent or interfere with State

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[2] The *Columbian Fuel case* was the first decision by the Federal Power Commission holding that it had no jurisdiction over sales for resale in interstate commerce by independent producers and gatherers.

regulatory authority, jurisdiction of the Federal Power Commission does not attach 311 U.S. 682, 690.[3]

Petitioners made ample proof of the conflict and interference with State regulation of production and gathering that would result from Federal regulation of sales such as Phillips. The Federal Power Commission so found and predicated its decision in part upon that finding (R. 1745-1747).

The Court of Appeals disregarded the finding, upon the ground that Phillips' sales were not made "during the course of" production and gathering, and therefore it said the rule laid down by this Court in the *Interstate case* does not apply (R. 1863). In so holding, the Court of Appeals disregarded the finding of fact by the Commission that such sales were made during the course of production and gathering (R. 1745). Apparently the Court was of the opinion that sales made immediately upon completion of production and gathering are not made "during the course of" those functions within the meaning of this Court's language in the *Interstate case.* By so holding, the Court of Appeals rendered meaningless, for all practical purposes, the language of this Court in the *Interstate case,* because most all field sales are made immediately upon completion of production or gathering and rarely, if ever, in the midst of one of those func-

[3] There was no such proof in the *Interstate case.* On the contrary, the Louisiana Public Service Commission participated in the proceedings and did not oppose Federal regulation, a fact which this Court took particular note of in its opinion (331 U.S. at p. 691).

tions. The Court went on to say in effect that it would make no difference if the sales were made during the course of production and gathering because "federal protection against exhorbitant rates is not inconsistent with the exercise by the producing states of its regulatory functions. *Interstate Natural Gas case,* * * *" (R. 1863-1864).

No support is to be found in the *Interstate case* for that statement—quite the contrary. The question of "exhorbitant" rates is of course injected by the Court of Appeals, there being no evidence on the point, but, aside from that, it can hardly be supposed that Federal Power Commission jurisdiction attaches when it finds that rates are exhorbitant and that it is without jurisdiction when it finds they are not!

Petitioners are therefore greatly confused in respect to the proof required of conflict between Federal and State authority to meet the test laid down by this Court in the *Interstate case.* It is respectfully submitted that the Court of Appeals has in effect overruled this Court's pronouncement in that regard. This Court alone can make clear what was intended.

This Court again reserved decision of the question here presented when it upheld the validity of the Oklahoma minimum price for gas produced in the Oklahoma Hugoton Field, when it said *(Cities Service Gas Co. v. Peerless Oil & Gas Co.,* 340 U.S. 179, 188-189):

"Whether the Gas Act authorizes the Power Commission to set field prices on sales by independent producers, or leaves that function to the states, is not before this Court."

Presumably this Court refrained from deciding this important question until it had before it a case in which the issue was squarely presented on the facts of the case. This is such a case, and this Court should settle this important question now.

The decision of the Court of Appeals even with the denial of certiorari by this Court,[4] settled nothing, but the decision being of a divided court, in addition to being vague and vascillating as to the basis for its conclusion, seems only to heighten the doubt and confusion.

The decision in this case is "fundamental to the further conduct of the case" and should be reviewed by this Court at this time.[5] The facts in respect to jurisdiction have been fully developed and a complete record made and nothing is to be gained by remanding the case for an expensive and laborious rate hearing which will shed no light on the jurisdiction of the Commission. Moreover, the delay involved in such a proceeding before this case may be again in shape to review by this Court will cause serious economic loss to the producers and gatherers of gas, to the revenues of producing States, and

[4] *Maryland* v. *Baltimore Radio Show*, 338 U.S. 912; *Agaston* v. *Penn.*, 340 U.S. 844.

[5] *United States* v. *General Motors Corp.*, 323 U.S. 373, 377; *Land* v. *Dollar*, 330 U.S. 730, 734, foonote 2; *Larson* v. *Domestic and Foreign Corp.*, 337 U.S. 682, 685, footnote 3.

to the regulatory authorities of those States over production and gathering, and will curtail and restrict the supply of gas to interstate markets.

III.

Even before this proceeding began, petitioners had experienced difficulty in obtaining compliance with their conservation orders because of producers' fears and compliance might result in their becoming natural gas companies (R. 418, 472-473). Many producers were refusing to sell gas in interstate commerce.[6] Particularly had this difficulty been pronounced when petitioner Railroad Commission of Texas sought to obtain short-term interconnections of lines for proration purposes (R. 472) or the saving of casinghead gas then being flared (R. 418).

The decision of the Court of Appeals and the refusal of this Court to review it will inevitably accentuate the reluctance of producers to sell gas to interstate pipe lines, or to make further expenditures for the discovery and production of gas, or for the conservation of gas. Not only will this result in inferior uses and physical waste of natural gas, contrary to the conservation policies of the producing States, but it will retard the expansion of pipe line facilities to serve the ever increasing demand for

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[6] Comment, 59 Yale Law Journal, 1468, 1490 (1950); Natural Gas Investigation, Federal Power Commission, Docket No. G-580, Report of Commissioners Smith and Wimberly, U. S. Government Printing Office, p. 170 (1948).

natural gas, and may actually reduce supplies of gas for pipe lines already in operation. Consumers in distant States may not be the least to suffer. The economy of the entire nation will be adversely affected by a further postponement of a definitive decision by this Court.

Independent producers and gatherers will be even more reluctant now to comply with many of petitioners' conservation orders. For petitioners' orders do not and cannot take into consideration, and still operate effectively, whether the use to which the gas is sought to be put is in intrastate or interstate commerce. Yet if compliance would necessitate a sale in interstate commerce for resale, the producer and gatherer might be faced with deciding whether the Court of Appeals' decision requires him to comply not only with petitioners' regulations but also with the mandatory requirements of the Natural Gas Act, such as the filing of tariffs,[7] the keeping of accounts in the prescribed manner[8] and making periodic reports[9] and the necessity of obtaining certificates of public convenience and necessity.[10]

These perplexing problems may well cause the less determined and the marginal operators to abandon their efforts and seek other fields of livelihood. The result would be both physical and economic waste.

[7] Natural Gas Act, Sec. 4(c), 15 U.S.C., § 717c(c).

[8] *Ibid.*, Sec. 8, 15 U.S.C., § 717g.

[9] *Ibid.*, Sec. 10, 15 U.S.C., § 717i.

[10] *Ibid.*, Sec. 7, 15 U.S.C., § 717f.

There is now pending in the Supreme Court of Oklahoma litigation testing the validity of a new minimum price order of the Oklahoma Corporation Commission affecting some of the same transactions that are involved in this case. *Natural Gas Pipeline Co. et al.* v. *Corporation Commission*, Nos. 35731, 35732 and 35734. In the promulgation of that order the State of Oklahoma has relied upon the holding of this Court in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U.S. 179. Since in the latter case this Court expressly reserved the question presented in this case, the decision of the Court of Appeals herein, and this Court's denial of certiorari, create doubts as to the scope and effect of the *Cities Service decision* as applied to transactions of the kind involved in this case. Since the denial of certiorari in this case the State of Kansas has promulgated a new minimum price order whose validity turns upon the *Cities Service decision*.[11] See also *Northern Natural Gas Co.* v. *Federal Power Commission*, 206 F. 2d 690, a case involving an important question of the relationship between State and Federal regulatory power, in which the Court of Appeals for the Eighth Circuit cited and relied upon the decision of the Court of Appeals herein. Petitions for writs of certiorari to review that

[11] See Wall Street Journal, December 3, 1953, Page 12. Compare *Kansas-Nebraska Natural Gas Co.* v. *State Corporation Commission*, 170 Kan. 341, 225 P. 2d 1054 (1951).

decision are now pending in this Court. See Nos. 381, 382 and 469, this Term.

CONCLUSION

For the reasons set forth above and in the Petition for Writ of Certiorari, it is respectfully urged that rehearing be granted and that upon such rehearing a Writ of Certiorari issue to the Court of Appeals for the District of Columbia Circuit.

Respectfully submitted,

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DECEMBER, 1953.

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In the Supreme Court of the United States

OCTOBER TERM, 1953

No. 418

FEDERAL POWER COMMISSION, PETITIONER

v.

STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, ET AL.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

The Acting Solicitor General, on behalf of the Federal Power Commission, prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the District of Columbia Circuit, entered in the above-entitled case on May 22, 1953.[1]

OPINIONS BELOW

The opinions of the United States Court of Appeals for the District of Columbia Circuit (R.

[1] Petitions for writs of certiorari seeking review of the judgment of the Court of Appeals have already been filed by Phillips Petroleum Company (No. 280, this Term) and by State of Texas and the Railroad Commission of Texas, Corporation Commission of Oklahoma and State of New Mexico and Oil Conservation Commission of New Mexico (No. 281, this Term).

VI 1855–1873) are reported at 205 F. 2d 706. The opinion of the Federal Power Commission (R. V 1682–1755) is reported at 90 PUR (NS) 325.

JURISDICTION

The judgment of the Court of Appeals was entered May 22, 1953 (R. VI 1875). By order of the late Chief Justice Vinson dated August 20, 1953, the time within which to file a petition for a writ of certiorari was extended to and including October 19, 1953. The jurisdiction of this Court is invoked under Section 19 (b) of the Natural Gas Act (15 U. S. C. 717r (b)) and under 28 U. S. C. 1254 (1).

QUESTION PRESENTED

Phillips Petroleum Company produces or purchases in the field natural gas which it moves in a network of pipelines to processing plants which are also in the field. At these plants, the gas is commingled, processed, and, within a few hundred feet or yards of the plants, sold by Phillips to pipeline companies, which, in turn, transport the gas in interstate commerce and resell it in the consumer markets. The question presented is whether, on these facts, the Federal Power Commission is barred from deciding that, by virtue of the exemption contained in Section 1 (b) of the Natural Gas Act for "the production or gathering of natural gas," Phillips' sales are excluded from the Commission's regulatory jurisdiction.

STATUTE INVOLVED

The pertinent provision of the Natural Gas Act (Act of June 21, 1938, c. 556, 52 Stat. 821, as amended, 56 Stat. 83, 15 U. S. C. 717 *et seq.*) is as follows:

SEC. 1. * * *

(b) The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

STATEMENT

On October 28, 1948, the Federal Power Commission instituted an investigation to determine whether Phillips Petroleum Company is a "natural-gas company" within the meaning of the Natural Gas Act, and if so, whether any of its rates, subject to the Commission's jurisdiction, are unjust or unreasonable (R. V 1647–1650).[2]

[2] There were several intervenors in the administrative proceedings. The cities of Detroit, Michigan; Kansas City, Missouri; and Milwaukee, Wisconsin; Wayne County, Michigan, as well as the State of Wisconsin and its Public Service Commission, intervened in support of Commission jurisdiction, participated in the proceedings below and constitute the respondents here. The States of Arkansas, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas, or

On April 16, 1951, the Commission limited the hearings then being held to the question of Phillips' status under the Natural Gas Act, deferring the remaining issues to subsequent hearings (R. V 1671–1676). At the close of the hearing[2] the Commission granted an unopposed motion for omission of the intermediate decision procedure (R. V 1680–1681), and, after receiving briefs and hearing oral argument, issued its opinion and order, determining that Phillips was not a natural-gas company within the meaning of the Act and terminating the rate investigation (R. V 1682–1753). Their petitions for rehearing having been denied (R. V 1836), the intervenors favoring Commission jurisdiction instituted proceedings for review in the court below (R. I 1–72) in which Phillips and other opponents of jurisdiction intervened (R. I 72–117). The Court of Appeals, Judge Clark dissenting, reversed (R. VI 1855–1875).

Phillips' Operations. The pertinent facts as to Phillips' operations may be summarized as follows: Phillips is a large integrated unit, engaged in virtually every phase of the petroleum indus-

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their agencies, as well as several royalty owners associations intervened in opposition to Commission jurisdiction (R. V 1686–1687). The States of Texas, Oklahoma and New Mexico and their agencies participated below and as already noted, *supra*, p. 1, have filed a petition for a writ of certiorari.

[2] The resulting record comprised almost 5,000 pages of testimony and nearly 4,000 pages of exhibits.

try and owning properties in the Mid-Continent, Missouri, West Texas, and New Mexico, Rocky Mountain and Gulf Coast areas (R. III 849–862; V 1687). As of December 31, 1949, Phillips owned or controlled by contract 15.22 trillion cubic feet of proven gas reserves (R. V 1689). In connection with its natural gas business, it also owned, in April 1950, approximately 4,380 miles of gathering, residue, and other gas lines in Arkansas, Kansas, Oklahoma, Texas, and New Mexico (R. V 1689). In addition, it owned and operated 25 natural gas plants, 19 in Texas, 4 in Oklahoma, and 2 in New Mexico, as well as owning part interest in 10 other plants, 3 of which it operates (R. V 1689).

Phillips sold over 400 million mcf of natural gas in 1949 and about 500 million mcf in 1950 (R. V 1689). About 50% of the gas so sold is purchased from other producers (R. III 855), and a substantial portion is casinghead gas, *i. e.*, produced from wells in conjunction with oil (R. IV 1328, 1358, 1388, 1420). Between 50% and 60% of the natural gas sold by Phillips is sold to interstate pipeline companies with none of which Phillips is affiliated (R. III 1053, 1070; V 1689). The purchasing companies transport and resell the gas to consumers and local distributing companies in fourteen states ranging from California to Michigan, Minnesota, Ohio, and Wisconsin (R. V 1690, 1827–1834).

Once the gas which is ultimately sold to the five natural-gas companies comes from the well-head, it typically flows into and through one of Phillips' nine pipeline systems to one of ten processing plants in the field. Each system consists of a network of converging pipelines of progressively larger size by means of which the gas is moved to the processing plants. At the processing plant, the extractable products and impurities are removed and the gas further processed to comply with the specifications of the particular sales contract involved. Thereafter, the gas is carried a few hundred feet or yards, depending on the particular case, to sales meters within or just outside the plant enclosure, where it is delivered to the purchaser who then transports it across state boundaries to the States where it is ultimately resold and consumed (R. V 1691–1711).

Opinion of the Commission. On the basis of the voluminous record before it, the Commission concluded that, although Phillips' activities were undoubtedly in interstate commerce, the sales and transportation came "within Section 1 (b)'s ban prohibiting application of the Act's provision to 'production or gathering'" (R. V 1740–1741), and that Phillips therefore was not a "natural-gas company" within the meaning of Section 2 (6) of the Act (R. V 1752–1753).

Opinion of the Court of Appeals. The Court of Appeals for the District of Columbia Circuit in a 2–1 decision reversed the Commission and

ruled that "the Commission should fix the rates at which [Phillips'] sales are made" (R. VI 1865). The court held that the sales took place "after the time and beyond the place at which production and gathering are complete and after processing has intervened" (R. VI 1857).

REASONS FOR GRANTING THE WRIT

1. The question presented by this case is whether independent producers and gatherers of gas in the field who sell directly to interstate pipeline companies at the point where gathering is complete are, by reason of such sales, subject to regulation under the federal Natural Gas Act. No such company has ever been regulated under the Act, as the Commission has never considered that its jurisdiction extended so far.[4] To the contrary, the Commission has presumed that the authority to control the producers and the gatherers rests in the producing states, whose regulations, primarily for purposes of conservation, protect both the national and the local interests.

[4] It has been estimated that there are approximately 2300 producers and gatherers selling to the 140 companies classified by the Commission for administrative purposes as "natural gas companies." See R. II 728–729; Federal Power Commission Statistics of Natural Gas Companies (U. S. G. P. O., 1951) pp. 501–502. It has been also estimated that there are approximately 8000 independent producers of natural gas in the United States. See Natural Gas Investigation, Federal Power Commission, Docket No. G–580, Report of Commissioners Smith and Wimberley, U. S. G. P. O. (1948), p. 194.

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Obviously, such a question, which would mandatorily bring within the Commission's jurisdiction this whole segment of the natural gas industry, is of great importance in the administration of the Act.

Moreover, whether the Federal Power Commission has the authority to regulate sales by gatherers, and thereby to subject the gatherers to the general provisions of the federal statute, manifestly presents an issue of major importance, not only to the industry and the Commission, but also to large sections of the public, which is the ultimate consumer of the gas gathered by these companies. There would seem to be little doubt but that this is a question of such national importance as to warrant the consideration of this Court.

2. The court below erred in ordering the Commission to assume jurisdiction over Phillips Petroleum Company. Both the legislative history of the Natural Gas Act, and familiar principles of deference to the administrative construction of the statute which the administrative body charged with its enforcement has applied, persuasively point to the error of the court below.

(a) The language of the statutory exemption is "production or gathering." Finding that these words were not "so plain and unambiguous as to provide a positive answer" to the problem present (R. V 1712, 1713), the Commission first turned to the history of the statute.

As appears from § 1 (a), the Natural Gas Act stemmed from the 1935 report of the Federal Trade Commission dealing with the necessity of correcting through regulation the evils resulting from the monopolistic practices of the interstate pipeline companies.[5] The evils portrayed did not in any way relate to independent producers and gatherers or their prices; on the contrary, the report depicted such groups as needing protection against the interstate pipeline companies (see, *e. g.*, S. Doc. No. 92, 70th Cong., 1st Sess., Pt. 84–A, pp. 132–133, 590, 602, 608–611). The purpose of the Natural Gas Act was to provide the requisite protection by providing for federal regulation of these interstate transportation companies. *Federal Power Commission* v. *Hope Natural Gas Company,* 320 U. S. 591, 610.

In the hearings on H. R. 11662, 74th Cong., 2d Sess., "an earlier bill substantially similar to the Natural Gas Act" (*Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.,* 337 U. S. 498, 505, fn. 7), Dozier DeVane, the Commission's Solicitor, explicitly stated in a brief submitted on the bill's constitutionality:[6]

> The bill makes no attempt to regulate the production or gathering facilities of a

[5] S. Doc. No. 92, Pt. 84–A, Final Report, Federal Trade Commission to the Senate, pursuant to S. Res. 83, 70th Cong., 1st Sess.

[6] Hearings before a Subcommittee of the House Committee on Foreign and Interstate Commerce, on H. R. 11662, 74th Cong., 2d Sess., p. 17.

> natural-gas company, this function being purely local in character * * *.

And he orally testified:[7]

> Mr. COLE [Member of Committee]. Does this bill give anywhere the Commission power over the source of natural gas in the different fields in a manner which we might call comparable to that which your Commission now has over hydro-electric generating plants?
>
> Mr. DEVANE. It does not; no, it *does not attempt to regulate the gathering rates or the gathering business.* * * *. [Italics supplied.][8]

Mr. DeVane further testified, in passages quoted by the Commission at R. V 1716, that the Commission was not to have authority over the rate charged by a company owning a gas supply to a company transmitting it to another state. The various committee hearings and reports, as well as the debates, contain numerous references to the fact that the intent of the legislation was, on the one hand, to regulate the interstate pipeline companies, *i. e.,* those engaged in the transporting of gas from the producing fields to consumer markets, including their sales made in the course of such transportation and, on the other, not to

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[7] *Id.* at p. 34. See, also, pp. 28, 42–43, 72.

[8] This Court has quoted these excerpts as material to the intended scope of the production and gathering exemption. *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 505, fn. 7.

regulate any of the activities of independent producers and gatherers.[9]

(b) The Commission then reviewed its own prior administrative construction which, of course, is entitled to great weight.[10] As stated in the Commission's opinion, "in no case in its history has this Commission held that the Act gives it jurisdiction over a company solely by reason of its movement of gas in interstate commerce or sales in interstate commerce for resale, where such movement or sales take place in the process of production or gathering" (R. V 1720–1721). Moreover, in 1940, scarcely two years after the Act was approved, and at a time when four Commissioners who had been in office both when the Act was passed and while predecessor bills were under Congressional consideration were still members of the Commission, the Commission held that it had no jurisdiction under the Natural Gas Act over sales by independent producers or gatherers of natural gas. *Columbian Fuel Corporation,* 2 F. P. C. 200. Since that

[9] See Hearings on H. R. 11662, 74th Cong., 2d Sess., pp. 17, 27–34, 39, 55–57, 61–62, 80–83, 85, 95–97, 150–159; H. Rep. No. 2651, 74th Cong., 2d Sess., pp. 1–2; Hearings on H. R. 4008, 75th Cong., 1st Sess., pp. 24, 43–45, 48–52, 69, 70, 99, 103–105, 108, 112–113, 121–122; H. Rep. No. 709, 75th Cong., 1st Sess., p. 2; 81 Cong. Rec. 6721–6723, 9312–9315.

[10] *Norwegian Nitrogen Co.* v. *United States*, 288 U. S. 294, 315; *United States* v. *American Trucking Ass'ns*, 310 U. S. 534, 549; *United States* v. *Public Utilities Commission*, 345 U. S. 295, 314–315.

time, the Commission has in numerous cases adhered to this construction of the Act.[11]

Significantly, in the case principally relied on by the court below and respondents, *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, this Court stated with respect to the doctrine of the *Columbian* case (691 n.) that:

> We express no opinion as to the validity of the jurisdictional tests employed by the Commission in these cases.

This would seem clearly to indicate that the Court in *Interstate* thought that the question presented by the *Columbian* case, which is the question in-

[11] See *Billings Gas Co.*, 2 F. P. C. 288 (1940); *Interstate Natural Gas Co., Inc.*, 3 F. P. C. 416 (1943); *The Fin-Ker Oil and Gas Production Co.*, 6 F. P. C. 92 (1947); *The Chicago Corporation*, 6 F. P. C. 98 (1947); *Kansas-Nebraska Natural Gas Co., Inc.*, 6 F. P. C. 664 (1947); *J. R. and D. E. Whelan*, 6 F. P. C. 672 (1947); *Hassie Hunt Trust*, 6 F. P. C. 835 (1947); *Sinclair Prairie Oil Co.*, 6 F. P. C. 1059 (1947); *LaGloria Corporation*, 7 F. P. C. 349 (1948); *Superior Oil Company*, 7 F. P. C. 627 (1948); *General Crude Oil Company*, 7 F. P. C. 1024 (1948). See, also, the Commission's Order No. 139, August 7, 1947, Docket No. R–106 (12 Fed. Reg. 5585) announcing that the Commission would "* * * construe the exemption contained in Section 1 (b), to the effect that the provisions of the Act shall not apply to the 'production or gathering' of natural gas, as including arm's-length sales of natural gas by independent producers and gatherers, made during the course or upon completion of production and gathering." In the light of the President's veto of H. R. 1758, 80th Cong., 2d Sess. (the House version of the so-called Kerr bill) and the pendency of the proceeding against Phillips, the Commission rescinded Order No. 139 by Order No. 154, issued July 11, 1950 (15 Fed. Reg. 4633). R. V 1728; see, also, R. V 1812, note 51.

volved in this case, differed from that then before it, and that it reserved that point for further consideration if and when necessary.

(c) As we show below (*infra* pp. 15–18), no decision of this Court required the Commission to find coverage in this case. Absent such judicial compulsion, it was obviously open to the Commission to use its own expert judgment in applying the statutory standard of "production or gathering" to the facts of the case. Where the question "is one of the specific application of a broad statutory term in a proceeding in which the agency administering the statute must determine it initially,"[12] the Court has often held that the administrative agency—familiar with the background of the legislation and the subject matter to be regulated, charged with the responsibility for administering the statute, and informed by practical experience in administration of the statute—is uniquely qualified. The reviewing court's function is then limited to determining whether the agency's findings have warrant in the record as a whole and a reasonable basis in law.[13] These cases are fully applicable here, since

[12] *National Labor Relations Board* v. *Hearst Publications, Inc.*, 322 U. S. 111, 131.

[13] *National Labor Relations Board* v. *Hearst Publications, Inc.*, 322 U. S. 111, 130; *Unemployment Compensation Commission of Alaska* v. *Aragon*, 329 U. S. 143, 153–154; *Gray* v. *Powell*, 314 U. S. 402, 412–413; *Rochester Tel. Corp.* v. *United States*, 307 U. S. 125, 145–146; *South Chicago Coal & Dock Co.* v. *Bassett*, 309 U. S. 251, 260; *Cardillo* v. *Liberty*

the Commission's role in determining the meaning of "production or gathering" is certainly no different from that of the agencies in the case cited in note 13, where coverage depended on the meaning of the terms "employee," "labor dispute in active progress," "producer" of coal, corporate "control," "member of a crew," injury "in the course of employment," and "bituminous coal." The principle of those cases has special force where, as here, Congress has not defined the critical statutory terms. Furthermore, where a term like "gathering" is used, which has a specialized meaning in an industry, determination of the coverage of the Act may depend upon appraisal of evidence as to what that specialized meaning is (*O'Hara* v. *Luckenbach S. S. Co.*, 269 U. S. 364, 371; *Order of Conductors* v. *Swan*, 329 U. S. 520, 525).

In these circumstances, the court below should have recognized that, since the Commission's ruling relates to a close question as to the application of the exemption on a matter peculiarly within the Commission's expertise, the Commission's order was not to be set aside unless unsupported by adequate evidence or without a reasonable basis in the law. The Commission's ruling complied fully with these requirements, for not only do the various legal materials to which summary reference has been made support

Mutual Co., 330 U. S. 469, 477–479; *Sunshine Anthracite Coal Co.* v. *Adkins*, 310 U. S. 381, 399.

the Commission's result, but its findings relevant thereto are supported by ample evidence.

3. (a) The court below reversed the Commission principally because it believed the Commission's determination to be inconsistent with this Court's decisions in *Colorado Interstate Gas Co.* v. *Federal Power Commission,* 324 U. S. 581, and *Interstate Natural Gas Co.* v. *Federal Power Commission,* 331 U. S. 682. In the *Colorado* case, however, this Court held only that in determining the rate base for gas sold by a pipeline company *after* transmission in interstate commerce, the Commission could (but was not required to) take into account the cost of the company's producing and gathering operations. There was no regulation of sales to the pipeline at the termination of the gathering process.

The *Interstate* decision, which is closer to the case at bar, did not require the result reached by the court below. In that case, Interstate was admittedly, apart from the sales in question, a company subject to the Act—a fact which the Commission has consistently treated as significant in the *Columbian* and subsequent cases. (See p. 11 and fn. 11, p. 12, *supra.*) Indeed, this Court's reference to the *Columbian* case, quoted at p. 12, *supra,* indicates that it was not rejecting the validity of the *Columbian* doctrine. Furthermore, the sales in the *Interstate* case were made out of an interstate transmission line, used to carry gas to consuming markets, not at the imme-

diate end of the gathering process. See *Interstate Natural Gas Co.*, 3 F. P. C. 416, 420. Moreover, in the *Interstate* case, the company, at the same time that it contested federal jurisdiction, was denying the State of Louisiana's power to regulate the transactions in question. See 331 U. S. at 687, n. 9. Indeed, the Court regarded as "a matter of some significance" (p. 692) that there was no evidence or suggestion by the State of any present or indicated conflict between state and federal activity if the Federal Power Commission's jurisdiction were upheld.

(b) As additional basis for its decision, the court below held that the Commission had misinterpreted the statement in the *Interstate* opinion (p. 690), that the gathering exemption applied "where sales * * * are made during the course of production and gathering *and* are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, * * *." [Italics added.] The court emphasized that in its finding at R. V 1752–1753, the Commission, substituting "or" for "and", concluded that Phillips' sales, "constitute a part of its gathering business, *or* they are incidents of or activities related to such business." But at R. V 1745, the Commission made the finding in the conjunctive, stating unequivocally that "these sales are made 'during the course of pro-

duction and gathering.' *And* we expressly find that they are so closely connected with the local incidents of that process as to render rate regulation by this Commission inconsistent or a substantial interference with the exercise by the affected states of their regulatory functions." [Italics added.]

Further, this Court's language in the *Interstate* case, as well as in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 506, suggests that the gathering exemption covers not merely the physical processes but "incidents connected with" (*ibid.*) gathering. It was not unreasonable, therefore, particularly in the light of the legislative history referred to above, for the Commission to regard the sale at the immediate end of gathering as such an incident, rather than as an aspect of the subsequent transportation.

(c) The court below erred also in its view that the sales in question here fell within the regulatory gap which the Natural Gas Act was designed to fill. The cases which denied to the States power over the interstate transportation and sale of gas and electricity (*Missouri* v. *Kansas Natural Gas Co.*, 265 U. S. 298; *Public Utilities Commission* v. *Attleboro Steam & Electric Co.*, 273 U. S. 83) involved sales made in the course of interstate transportation by the interstate transmitting companies, not sales by independent producers and gatherers to such companies at the culmination of

production or gathering. Neither the cases before the enactment of the Natural Gas Act[14] nor those since[15] suggest that the absence of State power related to the situation presented here.

CONCLUSION

Since the question presented by this case is of major importance, and the Commission's decision is fully warranted under the statute, this case is one in which certiorari should be granted.

Respectfully submitted,

ROBERT L. STERN,
Acting Solicitor General.

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General Counsel,
Federal Power Commission.

OCTOBER 1953.

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[14] Cf. *Champlin Refining Co.* v. *Corporation Commission*, 286 U. S. 210; *Ohio Oil Company* v. *Indiana*, 177 U. S. 190, 211–212; *Lindsey* v. *Natural Carbonic Gas Co.*, 220 U. S. 61.

[15] *Cities Service Gas Co.*, v. *Peerless Oil & Gas Co.*, 340 U. S. 179; *Phillips Petroleum Co.* v. *Oklahoma*, 340 U. S. 190.

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In the Supreme Court of the United States

OCTOBER TERM, 1953

No. 418

FEDERAL POWER COMMISSION, PETITIONER

v.

STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, ET AL.[1]

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

BRIEF FOR THE FEDERAL POWER COMMISSION

OPINIONS BELOW

The opinions of the Court of Appeals for the District of Columbia Circuit (R. V 1840–1856) are reported at 205 F. 2d 706. The opinions of the Federal Power Commission (R. V 1682–1822) are reported at 90 PUR (NS) 325 and 10 F. P. C. 246.

JURISDICTION

The judgment of the Court of Appeals was entered on May 22, 1953 (R. V 1858). By order of

[1] This is a companion case to *Phillips Petroleum Company* v. *State of Wisconsin, et al.*, No. 280, this Term and *State of Texas and the Railroad Commission of Texas* v. *State of Wisconsin, et al.*, No. 281, this Term, all pending before this Court on writs of certiorari.

the late Chief Justice Vinson, dated August 20, 1953, the time within which to file a petition for a writ of certiorari in No. 418 was extended to and including October 19, 1953 (R. V 1859). The petition for a writ of certiorari was filed on October 16, 1953. On November 30, 1953, the petitions of all parties in these proceedings were denied, 346 U. S. 896). Applications for rehearing were timely filed in Nos. 280 and 281, and on January 18, 1954, the Court vacated its orders denying certiorari and granted certiorari in Nos. 280, 281, and 418 (R. V 1860–1861, 346 U. S. 934–935). The jurisdiction of this Court rests upon Section 19 (b) of the Natural Gas Act (15 U. S. C. 717r (b)) and upon 28 U. S. C. 1254 (1).

QUESTION PRESENTED

Phillips Petroleum Company produces or purchases in the field natural gas which it moves in a network of pipelines to processing plants which are also in the field. At these plants, the gas is commingled, processed, and, within a few hundred feet or yards of the plants, sold by Phillips to pipeline companies, which, in turn, transport the gas in interstate commerce and resell it in the consumer markets. The question presented is whether, on these facts, the Federal Power Commission is barred from deciding that, by virtue of the exemption contained in Section 1 (b) of the Natural Gas Act for "the production or gather-

ing of natural gas," Phillips' sales are excluded from the Commission's regulatory jurisdiction.

STATUTE INVOLVED

Section 1 of the Natural Gas Act (Act of June 21, 1938, c. 556, 52 Stat. 821, as amended, 56 Stat. 83, and 61 Stat. 459, 15 U. S. C. 717 *et seq.*) reads as follows:

> SECTION 1. (a) As disclosed in reports of the Federal Trade Commission made pursuant to S. Res. 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.
>
> (b) The provisions of this Act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

STATEMENT

The Federal Power Commission on October 28, 1948, instituted an investigation to determine whether Phillips Petroleum Company is a "natural-gas company" within the meaning of the Natural Gas Act and, if so, whether any of its rates, subject to the Commission's jurisdiction, are unjust or unreasonable (R. V 1647–1650). The Cities of Detroit, Michigan; Kansas City, Missouri; Milwaukee, Wisconsin; and Wayne County, Michigan, as well as the State of Wisconsin and its Public Service Commission, intervened in support of Commission regulation of Phillips' rates (R. V 1687). The States of Texas, Oklahoma, and New Mexico or their agencies intervened in opposition to Commission regulation of Phillips' rates, contending that such regulation would interfere with the exercise by the States of their regulatory functions (R. I 80–83, 87–93, 100–103). The States of Arkansas, Kansas, Louisiana, Mississippi, or their agencies, as well as several royalty owners associations, also intervened in opposition to Commission jurisdiction (R. V 1686–1687).

Hearings commenced on April 3, 1951, and were concluded on May 23, 1951. The Commission, on April 17, 1951, limited the scope of the hearings to the question of Phillips' status under the Natural Gas Act, deferring the remaining issues to subsequent hearings (R. V 1671–1676).

In the course of some 39 days of hearing, a record was made comprising almost 5,000 pages of testimony and nearly 4,000 pages of exhibits.

The Commission granted an unopposed motion for omission of the intermediate decision procedure (R. V 1680–1681) and the record was certified to the Commission. After receiving briefs and hearing oral argument on July 9 and 10, 1951, the Commission on August 22, 1951, issued its opinion and order determining that Phillips was not a "natural-gas company" within the meaning of the Natural Gas Act; that certain sales and movement of natural gas by Phillips are not subject to Commission regulation; and that the Commission has no jurisdiction to regulate Phillips' rates. The Commission consequently ordered that the investigation be terminated (R. V 1682–1753). Their petitions for hearing having been denied (R. V 1836–1837), the interveners favoring Commission jurisdiction instituted proceedings for review in the court below in which Phillips and other opponents of jurisdiction intervened (R. I 1–72).[2] The Court of Appeals, Judge Clark dissenting, reversed (R. V 1840–1856). Briefly summarized the evidence in the record shows the following:

[2] Intervening in the court below in support of the Commission's order were Phillips, the State of New Mexico, and the Oil Conservation Commission of the State of New Mexico, the Corporation Commission of the State of Oklahoma, and the State of Texas through the Railroad Commission of Texas.

1. *Phillips' operations.*—Phillips is a large integrated unit engaged in many phases of the petroleum industry and owning extensive properties located in most of the important oil producing areas of the United States. Phillips is primarily an oil company which engages also in the production and gathering of natural gas. (R. III 863–869.) Although the percentage varies from year to year, Phillips' natural gas business in 1949 contributed only 4.2 percent of its gross operating revenues, with the percentage of net income being two or three times greater (R. V 1688).[2] Phillips does not engage in the movement of gas from the fields to consumer markets (R. V 1687–1690). There is no affiliation between Phillips and any natural-gas pipeline company. Phillips is thus an independent producer and gatherer of natural gas, as that expression is used in the industry (R. V 1714).

Notwithstanding that Phillips is principally engaged in the oil business, its operations as an independent producer and gatherer are substantial. As of December 31, 1949, Phillips owned or controlled by contract 15.22 trillion cubic feet of proven gas reserves (R. V 1689). Its network of gathering, residue and other gas lines constituting its gathering systems totaled approximately 4,380

[2] Phillips' gross operating revenues were divided as follows: Refined petroleum products, 48.9 per cent; crude oil, 24.3 per cent; natural gas liquids, 6.7 per cent; natural gas, 4.2 per cent; other, 15.9 per cent (R. III 852).

miles located in Arkansas, Kansas, Oklahoma, Texas, and New Mexico. Its production and gathering operations included 25 natural gas plants, 19 in Texas, 4 in Oklahoma and 2 in New Mexico, and part interest in 10 other plants, three of which it operates (R. V 1689). Phillips in 1949 sold over 400 million Mcf of natural gas and in 1950 about 500 million Mcf to intrastate purchasers and to interstate pipeline companies (R. V 1689). About 50 percent of the gas so sold is purchased from other producers (R. III 855), and a substantial portion of the remaining 50 percent is casinghead gas, i. e., gas produced from wells in conjunction with oil (R. IV 1328, 1358, 1388, 1420).

Phillips sells natural gas to five pipeline transmission companies, i. e., natural-gas companies subject to Commission jurisdiction under the Act[4] which transport and resell the gas to consumers and local distributing companies in fourteen States ranging from California to Michigan, Minnesota, Ohio and Wisconsin (R. V 1690, 1827–1834).

The gas which is sold by Phillips to these five natural-gas companies is produced and gathered, or purchased and gathered, by Phillips by means of its nine gathering systems. The gas flows into and through these systems to one of Phillips' ten

[4] Michigan-Wisconsin Pipe Line Company, Panhandle Eastern Pipe Line Company, Independent Natural Gas Company, Cities Service Gas Company, and El Paso Natural Gas Co. (R. V 1690).

processing plants. Each gathering system consists of a network of converging pipelines of progressively larger size, by means of which gas is collected and moved to the processing plants located generally in the center of each of the gathering systems.[5] The lines involved in these systems vary from a few inches to 30 inches in diameter, depending upon their relative location. They range in length from a few hundred feet to 40 miles, the length being determined chiefly by the distances necessary to move the gas to the point of final commingling within the particular gathering system. Generally the gas moves through the lines at well pressure, and final commingling is accomplished at the processing plants. Extractable products and impurities are removed at the processing plant and the gas is processed to enable Phillips to comply with the specifications of the particular sales contract involved. Thereafter, the gas moves a few hundred feet or yards to sales meters within or just outside the plant enclosure, where it is delivered to the purchasing interstate pipeline company which then transports it into other states for resale and ultimate consumption. (R. V 1691–1711.)[6]

[5] The complex character of the business of production and gathering is illustrated by a typical network of gathering lines as set forth in the map attached as an Appendix, *infra*.

[6] There are appended to this brief two charts, one which shows the points at which the sales in question take place (Appendix (2) from the Commission's opinion, R. V 1825) and

2. *The industry meaning of "gathering."*—Witnesses having long experience in the natural-gas industry and familiar generally with the operations taking place in the gas fields and plants and in particular with Phillips' activities, testified as to the commonly accepted meaning of "gathering" and as to whether Phillips' activities, including its sales to the transmission pipeline companies, are understood by the industry as being encompassed within that concept.

Mr. George P. Bunn, who is the manager of Phillips' natural gasoline department, and has had over 20 years experience in the natural-gas industry (R. I 319), testified that as "considered in the industry," and from his "knowledge of the operations of the industry" and of Phillips' operations, the operations involved in this proceeding have been considered from the beginning "as being those of gathering gas" (R. I 365). He described the distinctive economic function performed in the natural-gas industry, by such a business entity as Phillips, as follows (R. I 365–366):

> Historically the producer of casinghead gas in this industry collected the gas on his own lease or from several of his leases and he himself was predominantly the operator of a gasoline plant where such was installed,

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the other which shows a small segment of the intricate pattern of oil and gas wells and pipelines which cover the many fields from which Phillips gathers the gas which it sells (R. III 812–813). Other maps and charts are reproduced in Volume VI of the printed record.

and he collected the gas and processed it and conveyed it to points of disposal. His purpose was to do that. He found it desirable and economical to collect the gas from various wells, leading in various leases, to a common point or points of disposal so that the gas in the total quantity available from all sources was collected together at some one or more such points for the disposal necessary.

With regard to Phillips, he said (R. I 365): "* * * we have from the beginning considered our operations as being those of gathering gas." Those operations in which Phillips had been predominantly engaged, he described, as connected with Phillips' various "plant installations whether they be handling casing-head gas or gas from wells producing gas only or gas from a combination of the two"; and said that "we have considered ourselves gatherers of gas in the collecting of the gas from the wells or leases in the qualifying or conditioning of the gas and conveying it to one or more points of disposal in or near the area where the gas is produced" (R. I 365).

Mr. Bunn testified that the term "gathering line" has a well-defined and understood meaning in the natural-gas industry. Mr. Bunn stated that the Crane plant lines,[7] which are typical of the lines in which gas is moved to the plants gen-

[7] This plant forms a part of one of Phillips' gathering systems in the Permian Basin gas field in southwestern Texas, the source of certain gas delivered to El Paso.

erally, were "gathering lines" as that term was known in the industry, and that (R. I 368):

> Historically, I have never heard any other term used for those lines in general. They have always been called gathering lines. Sometimes they may be referred to simply as pipe lines or raw gas lines occasionally for distinction as among the many terms of equipment around the plant, but they have always been regarded and talked of as gathering lines.

He testified that this definition was applicable to the larger lines as they lead into the plant as well as the smaller lines, pointing to the economic function served by the lines as the determining factor (R. I 369):

> The purpose of gathering is to get the gas to one or more points of disposal. You don't gather out on the prairie or in the middle of a lake some place and then just stop. You get to the point of disposal. All of those lines, the larger ones which are larger only because they carry more gas, are gathering lines along with the smaller ones.[8]

[8] His testimony respecting the lines leading to the plants in other of Phillips' gathering systems involved in this case was to the same effect—all of such lines were "[gas] gathering lines within the meaning of that term as it has been and is known and understood" in the natural-gas industry (R. I 369; 370–374). "Gathering lines" include the "larger 24-inch lines as well as the smaller 4, 6, or 8 or 10-inch lines" since "There are not quite so many operators perhaps who have quite so extensive a system" as that of Phillips, and

As to the processing of gas at the plants, he stated that "the conditioning of the gas for disposal, both in the fractions that are disposed of in liquid and in gaseous form are a part of the functions of a gatherer" (R. I 365). He testified that the producer and gatherer historically regarded "the extraction of gasoline as a part of disposal and in cases where he sold the residue gas or where he utilized it * * * he considered the extraction facilities as partly qualifying or conditioning facilities in connection with his total operation of gathering in order to make the gas saleable or safe for use" (R. I 366). Regarding the conditioning of gas to comply with requirements contained in a sales contract, he stated, "whatever you are required to do to process the gas under these gas purchase contracts or whatever you elect to do in a gasoline plant along with that process-

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other operators "might not have as many of the larger sized lines"; nonetheless, the "system and its purposes are identical with those elsewhere in the industry and would be classified as gathering lines" (R. I 370). Subsequently, Mr. Bunn testified that the basis for his description of such lines as "gathering lines" was the fact that (R. II 640–641) "* * * in communication among units of the industry words are used, terms are used, such that there would be no doubt but what it is this type of line as expressed in these exhibits that would be called gathering lines by others in the industry. I also had in mind many contacts with people in the industry from day to day over the properties, looking at our lines with them and looking at their lines, and referring to them regularly as such, as gathering lines * * *. It is a matter of acquiring a broad knowledge over a period of years * * *."

ing, and as a part of the total processing, that is all a part of gathering" (R. II 634).

As to gas delivered to the pipeline companies and compressed at compressor stations in the field area or in the plants, Mr. Bunn testified that such compressing of gas was "a part of the process of gathering in that it is conditioning gas for disposal," adding that "the purpose in gathering is to collect the gas, condition it and move it to points of disposal" (R. II 631). He further agreed that the movement of gas from the plants for relatively short distances to the pipeline companies "is still part of the gathering up to the point of actually delivering it, adding that whether the point of delivery is "in or near the area of production" was of significance, depending on the circumstances of the case (R. II 634).[9]

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[9] Mr. Bunn testified further that certain other properties owned and operated by Phillips in connection with its gathering business, such as "booster" pumping stations employed in elevating the pressure of the gas to collect it from the wells and move it to the plants (R. II 634–644; 649–651), lines used for purposes other than moving the gas to the points of disposal (R. II 644), sales meters at the end of the lines delivering gas to the purchasing companies (R. II 636), and other appurtenant facilities in the systems and plants, although not "pipe lines," were "gathering facilities," because "they take part in the operation of gathering" (R. II 644, 647), and are "encompassed in the entire operation of gathering" (R. II 657; 658–662). As to the difference between "gathering facilities" and "facilities incidental to gathering," he testified that the former consisted of "those facilities that are involved directly in the physical operations of the collection,

Mr. Bunn concluded by testifying repeatedly that "gathering in our concept involves the sale" (R. II 677, 672), that "the sale is an incident to gathering, just like the purchase of the gas" (R. II 637, 677), and that gathering "does not end except on the completion of the sale" (R. II 673). And although as a nonlawyer he found it difficult to state the place of sale as a "legal" matter (R. II 677), he made it clear that as a matter of practical operating procedure in the industry, and from the standpoint of the economic function involved, Phillips' sales were indeed "an incident to gathering," because its facilities are built "to sell gas," and that initially Phillips endeavors to "make a contract with someone who wants the gas and then we provide the facility to make the disposal" (R. II 677–678).

Other witnesses experienced in the practical aspects of the industry and familiar with Phillips' operations, testified to the same effect. Mr. A. M. Rippel, a witness called by staff counsel [10] and employed in the natural-gas industry since 1925 (R. I 299–300), stated that "gathering of natural gas" involved "the collection of the gas from

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the conditioning or qualifying of the gas and the disposal" of the gas, and the latter—facilities "incidental to gathering"—consisted of other things not so directly involved in the disposal of the gas, but "still perform[ing] part of the total gathering operation" (R. II 675).

[10] Throughout the administrative proceeding, staff counsel took a position in favor of Commission jurisdiction (R. V 1747).

wells or points in or near the leases" through a "system of pipelines" (R. I 311), the "preparation of the gas for market" (R. I 311), including the "conditioning of natural gas to make residue gas and gasoline" (R. I 311), the "preparation of the gas which we are [sending] to market" (R. I 314), and the "entire operation, gathering the product of which we dispose" (R. I 314), all are "part of gathering" (R. I 314). Larger gathering lines providing the connection between smaller lines in the field and the plant, as well as the smaller lines, were equally "gathering lines," since their "function is gathering gas" (R. I 310). He also testified that (R. I 310–311):

> The only purpose of gathering natural gas is to dispose of it, whether through use, sale and the gas, the natural gas, as produced is gathered, prepared for market and disposed of, in its preparation, the liquifiable hydrocarbons are taken out, removed and sold. That is a part of the natural gas. After the extraction of the liquifiable hydrocarbons, the term residue is commonly used, and that is what is sold or used in the majority of our sales and uses.

The plants and the disposal of gas from the plants likewise were stated to be a part of gathering, for as he testified, in response to questioning by staff counsel (R. I 305–306):

> Q. In all of the cases where you have jurisdiction over the gathering of gas, as you

call it, that gas moves from the well head through connecting pipe lines into the plant, gasoline plant?—A. If there is a gasoline plant where we gather gas, it does enter a plant which is partly a part of the gathering system.

Q. Why do you say it is a part of the gathering system?—A. Because it, in fact, is. The gas is not gathered until it's—at least the residue part of it is not gathered until it is—delivered for sale.

Mr. A. W. Paris, employed in the natural gas industry since 1923, testified on direct examination by staff Counsel (R. I 197) with respect to Phillips' Dumas plant and gathering system whereby certain gas is delivered to El Paso. He stated that "throughout my 35 years in the industry" such a system "has never been known as anything else, except a gathering system," pointing out that, although the system may have changed in that time, "the purpose of it hasn't" (R. I 205). The testimony of Mr. Howard Markley, employed in the gas and oil fields since 1932, was in agreement that the lines through which Phillips collects gas and delivers it to the plant "are known as gas gathering lines" and that that terminology applies "to all of such lines" including "the large diameter lines that lead into the plant" (R. I 272–273). All of such lines are "part of the system" (R I 275). These conclusions he arrived at not as the result of formal study, but as "a matter of prac-

tice that has existed" all through his "experience in the industry" (R. I 280).

W. J. Murray, Jr., Railroad Commissioner of Texas, who has had years of engineering experience in the oil and gas business, testified that he considered the processing of gas a part of gathering, that they "are all tied in together" (R. II 501). Mr. W. S. Etchieson, an engineer with over 15 years' experience in the natural-gas industry, testified that Phillips' lines carrying gas to the various plants in its gathering systems, including lines in which the flow of gas could on occasion be reversed (R. I 138–146), were considered as "gathering" lines (R I 147, 148), and referred to the networks of lines serving the function of collecting the gas to the various plants as "gathering systems" (R. I 173–174; 190).[11]

[11] The only other testimony as to the practical meaning of "gathering" was that of Henry I. Stevens and B. P. Stockwell, both employees of the Federal Commission (R. II 680, 689). While they both said that gathering may extend as far as the processing plant (R. II 681–682, 691–692), both agreed that no flat rule could be formulated as to the termination of gathering in all cases. Mr. Stockwell stated (R. II 681):

"Gathering of gas cannot extend beyond the point where common pipe line enters the processing plant or connects with a transmission line. Gathering may, however, under certain circumstances end at a point short of the processing plant. It is impossible to state in general terms where gathering will end in all circumstances. I have undertaken only to fix an ultimate limit of gathering in my statement of where gathering ends."

Similarly, Mr. Stevens testified (R. II 692):

"Gathering ends when natural gas has been assembled at

3. *The Commission's opinion.*—In determining whether Phillips was subject to regulation as a "natural-gas company," the Commission evaluated the foregoing evidence in light of the legislative history of the Natural Gas Act (R. V 1713–1720), the pertinent judicial decisions (R. V 1728–1740), as well as its own administrative interpretation of the Act (R. V 1720–1728). Based on this evaluation, the Commission concluded that Phillips' operations "consist of production and gathering, or incidents of or activities related to these functions, thus requiring their inclusion within the Act's exemption" (R. V 1742). The Commission found that since the function of the lines moving the gas to each processing plant was that of gathering, the movement of gas through the lines is a part of gathering and therefore exempt (R. V 1743). The processing of gas to make it saleable or to recover extractable products or both, as well as the movement of gas in the relatively short lines from the plant to the point of sale, the Commission found was part of Phillips' gathering business or "at least exempt as an incident of or activity related to its gathering process" (R. V 1743). The Commission found that the sales, "the

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some common point of flow, point of common flow, in a pipe line designed to carry that gas to a processing plant or to some connecting transmission line. Gathering cannot possibly extend beyond the processing plant. It may end short of the processing plant. That determination depends upon a study and consideration of the facts in such instances."

end product of production and gathering, * * * likewise [are] a part of Phillips' gathering business, or at least an exempt incident thereof" (R. V 1744). The Commission also found that "[t]hough technically consummated in interstate commerce, these sales are made 'during the course of production and gathering' ", and that the sales "are so closely connected with the local incidents of [production and gathering] as to render rate regulation by this Commission inconsistent or a substantial interference with the exercise by the affected States of their regulatory functions" (R. V 1745). In this regard the Commission adverted to the direct relation between price and conservation (R. V 1745) and found that the costs it allowed in fixing rates would run counter to State conservation efforts, through the fixing of minimum well-head prices or otherwise, to encourage the maximum recovery and utilization of gas (R. V 1745–1747).

Commissioner Draper concurred in the result reached by the Commission for the reason that Commission regulation would be inconsistent or conflict with the exercise by the States of their regulatory power (R. V 1753–1755). Commissioner Buchanan dissented (R. V 1755–1822).

4. *The opinion of the court below.*—The Court of Appeals for the District of Columbia Circuit reversed the Commission. The majority held that Phillips' sales "are made after production and

gathering have been completed," that the exemption of "production or gathering" from Commission regulation by Section 1 (b) of the Act is inapplicable, and that Phillips' sales are subject to the Commission's jurisdiction under the affirmative language of the Act (R. V 1849).

Judge Clark dissenting, examined the legislative history of the regulation of the natural-gas industry, noting that this industry is divided into three main businesses, each with its distinctive character: production and gathering, transportation by pipeline companies to consumer markets, and local distribution. He was of opinion that sales by a producer and gatherer are a part of production and gathering and within the exemption of Section 1 (b) of the Act. He concluded that Congress intended to delegate to the Commission power only with respect to the business of transportation of natural gas by pipeline companies to consumer markets, and that the "gap" intended to be regulated existed only with regard to that business. He concluded, also, that Congress in any event had specifically expressed an intention to reaffirm power of regulation in the states to regulate the production and gathering business, if that power previously had been in doubt.

SUMMARY OF ARGUMENT

The case brings before this Court for the first time the question whether the sales of natural gas made by an independent producer and gatherer at the termination of gathering to an

interstate pipeline company for transportation and resale in other States come within the affirmative grant of jurisdiction to the Commission or are excluded from federal regulation under the exemption of "the production or gathering of natural gas." Section 1 (b) of the Natural Gas Act, *supra*, p. 3. In contrast to the Act itself which does not contain any authoritative definitions of the critical terms, the extrinsic criteria which are customarily looked to in such situations, i. e., the Act's purpose and legislative history, the construction of the administrative agency as well as the industry's understanding of the terms, uniformly reveal that such sales by gatherers were regarded as part of the gathering business which was intended to be exempt.

A. The Act's legislative history plainly reveals Congress' recognition of the three functional divisions of the natural gas industry, (1) production and gathering of gas in the field, (2) transportation and sale in interstate commerce, and (3) distribution to local consumers, and a repeatedly reiterated intention to deal only with the abuses resulting from monopolistic control by the pipeline companies of the strategic middle link of the industry, evils revealed by the Federal Trade Commission report of 1935, from which the Gas Act stemmed (see Section 1 (a) of the Act, *supra*, p. 3). The history, however, contains no suggestion that the evils of monopolistic control were prevalent among the independent producers of natural gas.

Indeed, the predatory practices of the pipeline monopolies, strengthened by their expansion into production itself, had substantial deleterious effect upon the "independent producers," who, together with "state commissions, * * * and communities having or seeking the service were growing quite helpless against these combinations." *Federal Power Commission* v. *Hope Natural Gas Co.*, 321 U. S. 591, 610. As a result, there was no need of regulation of any of the producers' activities, including their sales to the pipeline companies; on the contrary, the independent producers needed protection from the pipeline companies.

It is highly significant in itself that the legislative discussions are bare of any mention of even the possibility of imposing federal regulation upon the substantial proportion of the natural gas industry represented by the independent producers and gatherers of gas. In addition, there are affirmative manifestations of Congressional intent *not* to regulate sales by producers and gatherers. For example, in the hearings on H. R. 11662, 74th Cong., 2d Sess., a bill "substantially similar to the Natural Gas Act" (*Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 505), the Commission's Solicitor repeatedly stated in testimony, some of which is quoted in *Panhandle* (337 U. S. at 505, fn. 7) that the bill "does not attempt to regulate the

gathering rates or the gathering business." Nobody who had any connection with the legislation while it was pending before Congress disagreed with this testimony, and there is no indication that the subsequent bills were intended to have a broader application.

The excerpt from H. Rep. No. 709, 75th Cong., 1st Sess., the principal portion of the legislative history relied on by the court below (R. V 1843–1844), does not support a contrary result when read in context. Nor are the cases defining the gap which the federal act was meant to fill comparable to the present situation. *Public Utilities Commission* v. *Attleboro Steam and Electric Co.*, 273 U. S. 83; *Missouri* v. *Kansas Natural Gas Co.*, 265 U. S. 298.

B. Beginning with *Columbian Fuel Corporation*, 2 F. P. C. 200, issued two years after the Gas Act was approved, at a time when four of the five Commissioners had been in office both when the Act was passed and when the predecessor bills were under consideration in Congress, the Commission has consistently held that Congress had not delegated to it power to regulate the business of production and gathering, including sales made at the termination thereof to a pipeline company. "In no case in its history has this Commission held that the Act gives it jurisdiction over a company solely by reason of its movement of gas in interstate commerce or sales in interstate commerce for resale, where such move-

ment or sales in interstate commerce take place in the process of production or gathering" (R. V 1720–1721). Under well-established principles, such consistent refusal by an agency charged with administering a statute to assert a questioned power is a "powerful indication" that the authority is lacking. *Federal Trade Commission* v. *Bunte Bros.*, 312 U. S. 349, 351–352.

C. By omitting from the Act a definition of "gathering" or of the elements for fixing the character of "production or gathering" in relation to the Act's coverage, Congress left to the Commission's expert judgment the determination of the term's scope, based upon an appraisal of its specialized meaning in the industry. Many decisions of this Court hold that where the question is one of specific application of a broad statutory term, the function of the reviewing court is limited to ascertaining whether the administrative conclusion has a reasonable basis in law and is supported by the evidence. E. g., *National Labor Relations Board* v. *Hearst Publications*, 322 U. S. 111, 131; *Rochester Tel. Corp.* v. *United States*, 307 U. S. 125, 146. Inasmuch as the Commission's conclusion here accords with the purpose and intent of Congress and is supported by evidence showing that as commonly understood in the industry "gathering" encompasses all activities from the wellhead to the final sale to the interstate transporter, the court below erred in upsetting the Commission's decision.

D. The holding below is based on a misconstruction of the decisions of this Court. *Colorado Interstate Gas Co.* v. *Federal Power Commission,* 324 U. S. 581, involved sales by affiliated natural gas companies made after interstate transmission and long after production and gathering; the question as to the proper rate base for such sales patently did not involve a holding on the issue here. In *Interstate Natural Gas Co.* v. *Federal Power Commission,* 331 U. S. 682, the Court did not pass on the instant question but rather expressly reserved it (see 331 U. S. at 690, note 18). In addition, *Interstate* is factually distinguishable. Furthermore, the Court there noted that there was no claim that there the exercise of federal jurisdiction would conflict with state conservation functions; here, the producing states immediately concerned have vigorously opposed federal jurisdiction, and the Commission has found, on substantial evidence, that federal regulation would be inconsistent or substantially interfere with the exercise of state conservation functions, with the result that the exception explicitly recognized in *Interstate,* rather than its holding, is applicable here.

The later decisions in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.,* 337 U. S. 498, and *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.,* 340 U. S. 179, although not passing on the question here presented, are not irrelevant and

in fact furnish considerable support for the Commission's decision. In *Panhandle,* the Court held that the statutory exemption extended beyond the mere physical activities of production and gathering to incidents connected with and activities related to gathering. This, together with the Court's reading of the legislative history, which parallels generally that of the Commission in this case, strongly suggests the propriety of the Commission's approach here. And in *Cities Service,* the Court's stress on the importance of local regulation of natural gas in the interest of conservation and on the minimal effect of field prices on the domestic delivered price paid by the consumers, coupled with the holding that in the interest of conservation the states may constitutionally fix the wellhead price for gas destined for interstate commerce, similarly supports the Commission's interpretation of the production and gathering exemption.

ARGUMENT

THE COURT BELOW ERRED IN REVERSING THE COMMISSION'S FINDING THAT PHILLIPS WAS NOT A "NATURAL-GAS COMPANY" SUBJECT TO REGULATION UNDER THE NATURAL GAS ACT

Critical to the determination of the issue presented by this case is Section 1 (b) of the National Gas Act, which provides:

> (b) The provisions of this Act shall apply to the transportation of natural gas in inter-

> state commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

The Act thus affirmatively applies to (1) transportation of natural gas in interstate commerce, (2) sale of natural gas in interstate commerce and (3) natural-gas companies engaged in such transportation or sale. Cf. *Panhandle Eastern Pipe Line Co.* v. *Public Service Commission of Indiana*, 332 U. S. 507, 516. There is no dispute as to the Commission's conclusion that the sales of Phillips involved here are sales in interstate commerce of natural gas for resale (R. V 1740). Nor is there disagreement with its holding that Phillips' movement of gas to the points of sale constitutes transportation in interstate commerce as a matter of constitutional law (R. V 1740). Thus, if Section 1 (b)'s affirmative statements were the only relevant provisions, Phillips would come within the Act's definition of a "natural-gas company."

But that same Section also provides that the Act shall not apply:

> * * * to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or *to the production or gathering of natural gas.*

The statute does not define "production" or "gathering." Nor does the word "gathering" on its face reveal with any clarity whether sales made by a producer or gatherer at the terminus of gathering to purchasers who transport and resell it in interstate commerce are or are not within the exemption. In the absence of any authoritative definition of a word used principally in industry, it is obviously appropriate to look to industry understanding, the interpretation of the expert agency in the field, and other manifestations of what Congress thought it was regulating and exempting when it passed the Act.

Accordingly we turn to these customary extrinsic criteria—the Act's purpose and legislative history, the construction by the administrative agency and the industry's understanding of the terms used in the statute. Examination of these materials will reveal, as we show *infra,* that the sales by the gatherer were regarded as a part of the business of gathering which was intended to be exempt. The court below predicated its contrary conclusion primarily upon prior decisions of this Court, which, as we shall show, did not pass upon or determine the question here presented.

A. THE LEGISLATIVE HISTORY REVEALS A CONGRESSIONAL PURPOSE AND INTENT NOT TO SUBJECT TO FEDERAL REGULATION THE BUSINESS OF PRODUCTION AND GATHERING, INCLUDING SALES MADE AT THE TERMINATION OF THE GATHERING PROCESS

The natural-gas industry is divided into three parts—production and gathering of gas in the field, transportation and sale in interstate commerce, and distribution to local consumers. The history of the Act reveals plainly that Congress intended that the Act deal only with the evils disclosed in the central part of the industry, in order to protect the producers and gatherers at the beginning, as well as the local distributors and the consumers at the end, from the monopolistic practices of the pipeline companies in the middle. Thus the history is replete with evidence of a Congressional intent to regulate sales by these transmission pipeline companies. In addition the history contains affirmative evidence of Congress' intent *not* to regulate the sales of those engaged solely in the business of production and gathering, i. e., "the gathering business" and "gathering rates," and so to deny to the Commission jurisdiction over "either the gathering end or the distributing end of the business." It is indeed significant in and of itself that there is no mention in the discussions preceding the passage of the Act of even the possibility that such a substantial proportion of the natural gas industry was being subjected to federal regulation.

1. *The Federal Trade Commission Report of 1935.*—As appears from Section 1 (a) of the

Natural Gas Act,[12] the Act stemmed from the 1935 report of the Federal Trade Commission dealing with the necessity of correcting through regulation the evils resulting from the monopolistic practices of the interstate pipeline companies. This Report was the result of an investigation of the activities of public utility holding company systems. Part 84–A of the Report dealt with control by such systems of public utility corporations doing an interstate business in supplying natural gas to the consumers (Sen. Doc. No. 92, Pt. 84–A, 70th Cong., 1st sess. (1935)). The natural-gas industry was found to encompass three functionally distinct businesses consisting of: (1) those activities required for discovery and production of natural gas; (2) transportation of such gas through pipelines to points of ultimate consumption; and (3) the sale or marketing of natural gas at the places of consumption.[13] This

[12] SECTION 1. (a) As disclosed in reports of the Federal Trade Commission made pursuant to S. Res. 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.

[13] S. Doc. No. 92, p. 111. See also p. 602. Elsewhere, the Report recognizes the same functional division of the industry into production, transmission and distribution, and adds a fourth, the extraction of byproducts. *Id.* pp. 55–56.

tripartite division of the industry on the basis of the economic functions performed by each branch is fundamental to the Report's discussion of the problems of the industry and its recommendations with respect to those problems."

The abuses which were said to require remedial legislation involved the control of the strategic middle link between production and distribution—the interstate transmission of gas from the producing fields to the local distributing companies. Monopoly control of the transmission facilities, the "vital link of transportation" (*id.* at p. 610), represented the evil requiring Congressional correction. The Report stated (*id.* at p. 591):

> Whoever controls the channels by which a product is marketed controls the market so far as the supply is concerned. Concentrated control of those channels confers a strategic advantage that may be used by those possessing it to extend their domination into both the producing and distributing branches of the industry. It is important therefore to understand how far such concentrated control has proceeded among the chief interstate pipe lines, the only channel by which natural gas can reach the consumers located elsewhere than at the gas fields.

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[11] See Chapter IV, "Technical Characteristics and Problems of the Natural-Gas Industry," S. Doc. No. 92, Part 84–A, pp. 111–158; Chap. XIII, "Conclusions and Recommendations," pp. 607–617.

Speaking of Columbia Gas & Electric, Cities Service, Electric Bond & Share, and Standard Oil of New Jersey, the Report went on (*id.* at p. 592):

> * * * ownership and control of the major pipe lines of the entire country east of the Rockies are rapidly being concentrated in the hands of four groups which are so closely interrelated as to constitute for all practical purposes a single interest of enormous power.

The Report recited the strategic advantage gained by the pipeline transmission interests resulting from the fact that "[t]here is no known method by which gas in large quantities can be transported except by pipe lines" (*id.* at p. 112); that in contrast with the transportation of other commodities, there was no choice of routes or other means of transport available; that the tremendous cost of construction precluded construction of any substantial number of outlets from a given area; that, increasingly, a limited number of companies acquired control over available outlets, and, that competition was diminished by reason of the monopoly position occupied by the pipeline interests to the detriment of the consumers. The Report stated (*id.* at p. 113):

> * * * the controlling interests in gas transmission pipe lines which were also interested in local gas-distribution companies admittedly operating as public utilities, have often taken advantage of this position of interstate monopoly of transmission. They have made charges for gas delivered to the

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> local distribution companies which resulted in relatively high rates of return or profit to the pipe line companies, but imposed such a burden upon operating utilities * * * that such distribution companies often showed very small profits and in some cases heavy deficits.

No one suggested that the evils of monopolistic control were attributable to the producers or gatherers of gas. Indeed, it was pointed out that the predatory practices of transmission pipeline monopolies had substantial deleterious effects upon the producers (*id.*, p. 590; see also p. 159):

> To the extent that large pipe line interests do not need to buy gas from unaffiliated producers but obtain it from their own wells or from wells of affiliated companies, they are in position to control the price at which independent producers must sell. In other words, control of the market outlets accentuates whatever control the pipe line interests have of the available gas supply. The relation between pipe line purchasers is frequently so close by reason of community of ownership, reciprocal contracts, or informal cooperation that independent producers have nothing to hope for in the way of competitive bidding.

Further, the Report pointed out in comparing the independent producer of gas to the independent producer of anthracite coal, that whereas the latter has a relative degree of flexibility in selling his product to the public, the "independent gas producer, lacking capital and gas reserves

necessary to warrant building pipe lines and assuming responsibility for distribution, especially as a public utility, has no outlet other than to sell his product under contract at the well to the large interests owning the pipe lines and distribution facilities necessary to market his product" (*id.*, p. 80). Clearly this indicates that the independent producers and gatherers were not the intended subjects of regulation, but, on the contrary, were subjects for protection.

The Report further stated (at p. 132):

> In some important fields, the pipe line companies, either directly or through affiliated interests, control very large proportions of the gas acreage and wells, and, therefore, potential production. They may even more completely control the available outlets to consumer markets. The set-up price of gas at the wells within such groups is subject to many possible influences other than actual costs plus a reasonable profit. The actual field price is more a problem of the independent producer seeking a buyer, faced as he often is with no freely competitive market.

The natural-gas industry was represented as: "strongly competitive both in procurement of the supply and in sale or disposal. It is highly competitive at both ends and in two of its three groups of functions. It is thus definitely differentiated from many other public utilities, which often have a considerable competitive element in the disposal

or sale of their services and commodities but are but little affected by immediate competition in the facilities or functioning for production." (*Id.* at p. 112.)

Additionally, it was pointed out in the Report that the: "development of interstate pipe lines of large capacity" had given rise to important questions with respect to the conservation of natural gas (*id.* at p. 109). Development of the pipe lines, forming "the vital connection" between "production of gas, which is subject to State regulation, and its transportation in interstate commerce," subject to Federal regulation, emphasizes the need for comprehensive regulation. Solution of these interrelated problems necessitated complementary regulation by both State and Federal agencies, each within its respective spheres (*ibid.*). State regulation would extend to the first and third functional divisions of the industry, production and gathering and local distribution. Federal regulation was recommended for the intervening gap, interstate transmission and wholesale sales to local distributors.[15]

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[15] As stated in the Report (at pp. 85–86), "Due to the overlapping nature of the business, which is intrastate as to production, interstate as to transmission, and intrastate as to local distribution, such a program [of regulation of the entire field] would necessarily involve close cooperation of State and Federal agencies, each to supplement the efforts of the other. * * * Regulation of interstate commerce being constitutionally reserved to the Federal Government would seem to indicate that regulation of pipe-line developments,

As summarized in *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591, 610:

> * * * the investigations of the Federal Trade Commission had disclosed that the majority of the pipe-line mileage in the country used to transport natural gas, together with an increasing percentage of the natural gas supply for pipe-line transportation, had been acquired by a handful of holding companies. State commissions, *independent producers,* and communities having or seeking the service were growing quite helpless against these combinations. *These were the types of problems with which those participating in the hearings were preoccupied. Congress addressed itself to those specific evils.* [Italics supplied.]

Statutory language is, of course, to be read in the light of the legislative aim and to avoid bringing about a result at variance with the purpose of the statute (see, e. g., *United States* v. *Public Utilities Commission,* 345 U. S. 295; *United States* v. *American Trucking Assn's,* 310 U. S. 534,

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operations, and wholesale prices would be a function to be definitely assumed by the Federal Government to supplement the present deficiencies of State regulation, by substituting direct and comprehensive authority in determining wholesale prices and transportation charges for at the present largely indirect and ineffective efforts of individual States to regulate wholesale or city gate prices where interstate commerce is involved. Beyond this again lies the field of local utility distribution which is now, and should continue to be, administered by the various States."

543). The report of the Federal Trade Commission, upon which the statute was largely based, clearly points to the conclusion that no part of the business of independent producers and gatherers was intended to be subjected to federal regulation. For there was not the slightest suggestion that the evils at which the statute was directed were attributable to them. And this conclusion would extend to the terminal point of their portion of the business, the sale *to* the pipeline company, as well as to their other activities.

2. *Predecessor Bills and Committee Hearings and Reports Thereon.*—Analysis of five of the considerable number of bills introduced in Congress prior to the enactment of the Natural Gas Act in 1938, and their related Committee hearings and reports, is particularly helpful in determining the intent of Congress in enacting this legislation.[16] These materials reflect, as previously recognized by the Federal Trade Commission, (1) that the natural-gas industry was divided into

[16] The bills are H. R. 5423, 74th Cong., 1st sess. (1935), the Public Utility Act of 1935, and hearings before the House Committee on Interstate and Foreign Commerce, 74th Cong., 1st sess. (1935); H. R. 11662, and hearings thereon before a Subcommittee of the House Committee on Interstate and Foreign Commerce, 74th Cong., 2d sess. (1936); H. R. 12680 and House Report No. 2651, 74th Cong., 2d sess. (1936); H. R. 4008 and hearings thereon before the House Committee on Interstate and Foreign Commerce, 75th Cong., 1st sess. (1937); and H. R. 6586, the bill which was passed and became the Natural Gas Act and House Report 709, 75th Cong., 1st sess. (1937).

three functional divisions, viz, production and gathering, interstate pipe-line transmission and sales, and local distribution; (2) that the proposed legislation was directed at the evils, predatory practices, and grossly excessive charges of the interstate pipe-line companies; and (3) that there were evils from which the independent producers as well as the consumers needed protection and which the affected States were constitutionally without power to provide under this Court's holdings in *Missouri* v. *Kansas Natural Gas Co.*, 265 U. S. 298, and *Public Utilities Commission* v. *Attleboro Steam & Electric Co.*, 273 U. S. 83.[17]

(a) *H. R. 5423.*—The first of the predecessor bills designed to provide regulation of the natural gas industry, H. R. 5423, introduced in 1935, con-

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[17] In contrast, there were no comparable holdings that the States are constitutionally without power to regulate any aspect of the production and gathering business. Rather, as appears in the Trade Commission's report, *supra*, pp. 35–37 (see also *infra*, pp. 41–42, 44, 51, 64, 65) these activities were regarded as local in nature and hence, even though in interstate commerce, nevertheless still a proper subject of State regulation. See e. g., *Cooley* v. *Board of Wardens*, 12 How. 298. Cf. *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U. S. 179, and *Phillips Petroleum Company* v. *Oklahoma*, 340 U. S. 190, where subsequent to the enactment of the Natural Gas Act the Court, citing among others the *Cooley* case, affirmed the constitutional power of the States to regulate well-head sales by producers, although in interstate commerce.

sisted of three titles. Title III dealt with interstate transportation of natural gas.[18]

The declaration of policy contained in Section 301 (a) of this title referred to the "business of selling, transmitting, and distributing[19] as a part of interstate commerce, natural gas for ultimate public consumption" as being "affected with a public interest." Attention was focused upon the "business" of selling and transmitting natural gas. This declaration of policy remained unchanged in all the subsequent bills. Regulation would have extended to the "transmission and sale of natural gas in interstate commerce," but not the "retail sale of natural gas in local distribution."[20] And while there was no express

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[18] Title I dealt with regulation of public utility holding companies, and Title II with interstate commerce in electric energy. A modified version of the bill when reported by the House Committee did not include Title III (H. Rep. No. 1318, 74th Cong., 1st sess., 1935).

[19] The word "distributor" is used in this bill not in the conventional meaning of "local distribution," but more as "natural-gas company" is used in the later bills and the Natural Gas Act. See fn. 20, *infra*, which confirms again that Congress sought to regulate the sales of the pipe-line transmission companies.

[20] Section 301 (b). The section reads in its entirety:

"The provisions of this title shall apply to the transmission and sale of natural gas in interstate commerce, but shall not apply to the retail sale of natural gas in local distribution. The Commission shall have jurisdiction over all facilities for such transmission or sale and over all facilities connected therewith as parts of a system of natural gas transmission situated in more than one State, except facilities for the retail distribution of natural gas, or for the transmission of

exemption of production or gathering, it is to be noted that the language specifically limited jurisdiction to "all facilities for such transmission or sale and over all facilities connected therewith as *parts of a system of natural gas transmission* situated in more than one State * * *".

That the thrust of this bill was to subject the transmission of natural gas to federal regulation is made even more explicit in the Committee Print of the bill (H. R. 5423, Committee Print, June 22, 1935), which revised this section of the proposed legislation to provide:

> SEC. 302. The provisions of this title shall apply to the transmission of natural gas in interstate commerce in natural gas pipe lines and to the sale of natural gas at wholesale for resale in interstate commerce, but shall not apply to any other sale of natural gas. The Commission shall have jurisdiction over all facilities used for such transmission or sale of natural gas but shall not have jurisdiction over low-pressure or service lines.

"Natural-gas pipeline" in this print was defined as "a high-pressure main into which natural gas is delivered from field gathering lines and from which natural gas is taken into low-pressure or

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natural gas solely for the use of the producer or transmitter or the use of his tenants on property owned or controlled by him and not for resale. Every person who owns or operates facilities subject to the jurisdiction of the Commission under this title shall be subject to the provisions of this title. The term 'distributor' when used in this title means any person who owns or operates such facilities."

service lines for local distribution." Sec. 301 (5). A "field gathering line" was defined as a "line through which natural gas is delivered from the wells to the natural-gas pipe line." Sec. 301 (6). Natural-gas company was defined as "a person or company engaged in the transmission of natural gas in high-pressure mains in interstate commerce." Sec. 301(8). These definitions provide unmistakable evidence of the congressional intent to regulate only the transportation of natural gas in high pressure mains into which gas is delivered from the field gathering lines, and the sales of gas by companies engaged in such transportation. The gathering business at the one end and the local distribution business at the other end of these transmission lines were not to be regulated by a Federal commission.

Hearings on H. R. 5423 related principally to the first two titles of the bill. However, there was some testimony by State public utility commissioners, who were interested in the passage of Title III. These witnesses asserted that most of the business of the gas industry was local and should not be subjected to Federal regulation. For example, Mr. John E. Benton, General Solicitor of the National Association of Railroad and Utility Commissioners, emphasized that the natural-gas industry was "predominantly local and subject to State control. Transportation and sale at wholesale alone escapes State control." He pointed out that whereas in the railroad field 80

or 90 per cent of the volume of business was interstate in character, "the situation is exactly the opposite in the utility field, where 80 or 90 per cent of the business is local and intrastate. * * * That section of this bill which relates to natural gas recognizes this distinction and aims to fill the gap without invading the local field."[21] He concluded by expressing concern over the possibility of judicial extension of Federal authority into an area not intended by Congress.[22]

(b) *H. R. 11662.*—This bill, characterized by this Court in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 505, as "substantially similar to the Natural Gas Act,"[23] was introduced in the House in 1936. This

[21] Hearing before the Committee on Interstate and Foreign Commerce of the House of Representatives on H. R. 5423, Part 3, 74th Cong., 1st sess. (1935), pp. 1633–1634.

[22] At page 1624 he stated:

"When Congress passed the Act to regulate commerce in 1887 it placed in the first section of that act this seemingly explicit provision:

" 'Provided, however, that the provisions of this Act shall not apply to the transportation of passengers or property, or to the receiving, delivering, storage, or handling of property, wholly within one State, and not shipped to or from a foreign country from or to any State or Territory as aforesaid.'

"Yet, notwithstanding that declaration, a provision in the third section of the Act forbidding discrimination against persons or places was construed to give the Interstate Commerce Commission the power over intrastate rates which was exercised in the Shreveport case, and today State jurisdiction has become not much more than a shadow in the railroad field. The State commission does not wish to repeat that experience in the utility field."

[23] In holding in that case that gas leases were exempt from Federal regulation as an incident to production and gather-

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bill and the hearings thereon made clear the intent of Congress to subject to Federal regulation only those activities in the middle division of the natural-gas industry, that is, the interstate transmission of natural gas by pipeline companies and the sales of such gas by the companies at wholesale.

Section 1 (a) of this bill, containing the congressional statement of policy, referred, as did the corresponding section of the earlier H. R. 5423, to "the business" of transporting and selling natural gas for ultimate distribution to the public as being affected with a public interest. Section 1 (b) provided for regulation of "the transportation of natural gas in high-pressure mains in interstate commerce and to natural-gas companies engaged in such transportation," but not "the distribution of natural gas moving locally in low-pressure mains or to the facilities used for such distribution or to the production of natural gas." A "natural-gas company" was defined as "a person engaged in the transportation of natural gas in high-pressure mains in interstate commerce." Sec. 2 (5).

The House Committee on Interstate and Foreign Commerce held public hearings on H. R. 11662 in April, 1936. No witness suggested at this time—or indeed at any other time in the

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ing, this Court quoted from and expressly relied on testimony given during hearings on H. R. 11662 in ascertaining the intent of Congress with respect to the Natural Gas Act.

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Act's legislative history—that the proposed legislation either did or should provide for regulation of the business of production or gathering or any part thereof. Repeated testimony to the contrary was given by Mr. Dozier A. DeVane, then Solicitor for the Federal Power Commission, who had been loaned to the Committee to assist in drafting the bill. This Court, in the *Panhandle* case (*supra*) relied on his testimony as revealing the intent of Congress, saying (337 U. S. at 505, fn. 7):

> In a brief prepared by the Solicitor of the Federal Power Commission for the House Committee on Interstate and Foreign Commerce on the constitutionality of H. R. 11662, an earlier bill substantially similar to the Natural Gas Act, the following appears as part of the analysis of the bill: "The bill makes no attempt to regulate the production or gathering facilities of a natural-gas company, this function being purely local in character * * *."
>
> The Solicitor of the Federal Power Commission in testifying at the same hearing also answered the following question:
>
> "Mr. COLE [Member of Committee] Does this bill give anywhere the Commission power over the source of natural gas in the different fields in a manner which we might call comparable to that which your Commission now has over hydroelectric generating plants?

> "Mr. DeVane [Solicitor of the F. P. C.]. It does not; no. It does not attempt to regulate the *gathering rates or the gathering business.* * * *" [Italics supplied.]

In addition to the excerpt thus quoted by the Court, Mr. DeVane at other points in his testimony reiterated that Section 1 (b) would preclude regulation of the sales of gatherers. Thus, he further stated:[24]

> Mr. DeVane. * * * Now, section 1 (b) also provides that the Commission shall have no jurisdiction over the gathering or gathering rates for natural gas.
>
> Mr. Cooper [Member of Committee]. What do you mean by gathering rates?
>
> Mr. DeVane. The rates that are paid in the gathering field, Mr. Cooper.

And he subsequently made it clear that the "gathering rate" which was meant to be exempt was the rate paid *to* the gathering company by the interstate transmitting company, as the following colloquy shows (*id.* at 42–43):

> Mr. Lea [Chairman of Subcommittee]. Mr. DeVane, I would like to go back just a moment. Of course, it is a question of regulation. Suppose that the A company owns a gas supply and the B company transmits it to another State, distributes it to a local company for distribution. Now suppose

[24] Hearing before a Subcommittee of the House Committee on Interstate and Foreign Commerce on H. R. 11662, 74th Cong., 2d sess. (1936), p. 28.

the question arises as to whether or not the charges which the A company makes against the B company for the gas is reasonable. What, if any, authority would the Commission have on that question, under this bill. Do you get my question?

Mr. DEVANE. Yes; if I understand your question, *concerning the price paid to the A company, there is no control of the gathering rate;* the Commission would not have jurisdiction. That price is fixed by competitive conditions that exist in the field. But it matters not how many different ownerships there may be between the time gas starts to move in interstate commerce and gets to the city gates. Ownership might change a dozen times—A company sell to B, and B company sell to C—all those rates would be subject to regulation.

Mr. LEA. Well, when the supply company is brought before the Commission in an action to regulate its rates, and they say, "We have got to pay so much for gas; we cannot control that price which they charge us, and we have to charge a higher delivered price to the buyer."

Does the Commission have any power over that?

Mr. DEVANE. No; *not the price that is paid to the gatherer,* to the man that produces it; that is binding if the transaction is at arm's length. If the transaction is not at arm's length, of course, its reasonableness may be inquired into, under the decisions of the Supreme Court. [Italics supplied.]

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No other witness nor member of the Committee took issue with Mr. DeVane's repeated and unequivocal view as to the exempt status of sales by producers and gatherers. Mr. John D. Battle, testifying for the bituminous coal-mining industry, expressed the common understanding when he said (*id.* at 72):

> Consequently, the only phase of the industry, as I see it, that it is proposed to regulate is after the gathering ceases and the gas is turned into a main line, so to speak, until it reaches the city gate, and only then when it is moving in high-pressure mains across State lines.
>
> If I am wrong in this interpretation of the bill, I hope that I may be corrected now.

No one undertook to correct him.

Mr. DeVane had stated prior to the testimony of Mr. Battle that the "whole purpose" of the bill was "to bring under Federal regulation the pipelines" (*id.*, at 24). Testifying regarding the purpose of the various sections of the bill, he constantly referred to the "interstate pipelines" or the "pipeline companies." In connection with Section 6 (a), he pointed out that the Commission would be authorized to ascertain the actual legitimate cost of the property "owned by these pipeline companies" (*id.*, at 31). Discussing Section 7, he commented that the Commission would have authority to require extensions from the "pipe-

lines," and to "require a pipeline company to furnish gas to a local distributing company" (*id.*, at 37, 40–41).

Federal regulation was not intended to supersede State regulation. The bill did not attempt to prevent the waste of gas despite the importance of this problem, since that was a matter for State regulation (*id.*, at 34–36). Both State and Federal regulation were considered essential; but it was intended that the latter should extend only to the gap in regulation consisting of the interstate transmission of gas and its sale by the pipeline transmission companies. Mr. DeVane stated his view as to this basic purpose of the bill as follows (*id.*, at 41):

> The real question we are dealing with here is this: There is a complete hiatus in the regulation of rates charged by these pipeline companies to the local distributors of gas throughout the United States, and we are trying to augment State regulation by conferring authority upon a Federal Agency to fix those rates.

(c) *H. R. 12680 and House Report 2651.*—H. R. 11662 was revised by the House Committee on Interstate and Foreign Commerce, and reintroduced on May 12, 1936, as H. R. 12680 of the 74th Congress, 2d session. It was accompanied by House Report No. 2651. Section 1 (a) of this bill remained unchanged but Section 1 (b) was revised considerably.

H. R. 11662 had provided for the exemption of "the production of natural gas." H. R. 12680 broadened the exemption so as to exclude "the production *or gathering* of natural gas." This revision was consistent with Mr. DeVane's testimony at the hearing on H. R. 11662, that "the gathering business" and "gathering rates" were intended to be excluded from Commission regulation. Its obvious purpose was to make clear that the bill meant what Mr. DeVane had said.

The affirmative provisions of Section 1 (b) were also changed to their present form.[25] H. R. 11662 had provided for regulation of "transportation of natural gas in high-pressure mains in interstate commerce and to natural-gas companies engaged in such transportation." This was changed to provide for regulation of "the transportation of natural gas," the "sale of such gas for resale to the public," and of "natural-gas companies engaged in such transportation or sale."[26]

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[25] This Court has already noted the lack of material difference between H. R. 11662 and the Natural Gas Act, *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 505. See *supra*, pp. 42–43, 44. The jurisdictional provisions of the subsequent H. R. 12680 are even more like those in the Act. See fn. 26, *infra*.

[26] Section 1 (b), H. R. 12680, in its entirety read:

"(b) The provisions of this Act shall apply to the transportation of natural gas in interstate commerce, to the sale of such gas for resale to the public, and to natural-gas companies engaged in such transportation or sale, but shall not apply to the local distribution of natural gas or to the facilities used for such distribution or to the production or gather-

There is nothing to indicate that Congress intended by these changes in language to enlarge the scope of the proposed regulation of the natural-gas industry. No further hearings were held on the bill, but it was accompanied by a committee report. This report on H. R. 12680 (H. Rep. No. 2651, 74th Cong., 2d Sess.), although not explicit on the present point, shows that Congress intended H. R. 12680 to provide federal regulation of the same subject matter as in the earlier bills, that it was desired to reach the activities of the interstate pipeline transmission companies, not those matters which were subject to State control. The report stated (p. 2):

> Under the decisions of the United States Supreme Court rates charged in interstate wholesale transactions may not be regulated by the States. Such transactions are defined in this bill to mean sales of natural gas for resale. The Commission is given no jurisdiction over local rates even where the natural gas moves in interstate commerce.
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> * * * * *

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ing of natural gas: *Provided*, That nothing in this Act shall be construed to authorize the Commission to fix the rates or charges to the public for the sale of natural gas distributed locally or for the sale of natural gas for industrial use only."

Section 2 (5) provided:

"'Natural-gas company' means a person engaged in the transportation of natural gas in interstate commerce, or the sale of such gas for resale to the public * * *."

> The bill takes no authority from State commissions and is so drawn as to be a complement, and in no sense an usurpation, of State regulatory authority * * *.

The appearance of Mr. John E. Benton, General Solicitor of the National Association of Railroad and Utility Commissioners, before the subcommittee was noted, and the following statement by the Chairman of the State Corporation Commission of Kansas was stated to represent the attitude of State regulatory commissions (*id.* at pp. 2–3):

> "* * * There are a number of towns in Kansas where the interstate company sells gas at the city gate to individual companies, and in those cases we have no power whatever to determine the fairness of the gate rate. In other words, in determining rates to consumers in those cases there is one major factor of cost, namely, the cost of gas at the city gate over which neither the State commission nor any Federal authority now has any control. * * *"
>
> Your committee believes this legislation useful and very desirable *to fill the gap in regulation that now exists by reason* of the lack of authority in the State commissions over interstate transportation. [Emphasis supplied.]

These passages show what it was understood this proposed bill would regulate.

(d) *H. R. 4008 and Hearings Thereon.*—No action was taken by the 74th Congress on H. R. 12680. Early in 1937, Chairman Lea introduced

H. R. 4008, 75th Congress, 1st session, which was later designated H. R. 6586 and passed as the Natural Gas Act. The bill in form was identical with H. R. 12680.

Hearings were held on H. R. 4008 by the House Committee during March, 1947. The testimony respecting H. R. 4008 reflects an increasing awareness that in some instances the pipeline transmission companies produced their own gas, just as in some instances they controlled the local distributing companies (*id.*, at 39). Congressman Pettengill, a member of the Committee, addressed the following question to Mr. Booth, representing the Illinois Commerce Commission, after the latter had testified that his Commission had no power to determine what Natural Gas Pipeline Company of America, a pipeline transmission company selling to a local distribution company in the Chicago area, should collect from the local distributor:

> Mr. PETTENGILL. It is not clear to me what you mean by the wholesale interstate rate. Is that a tariff charged by a company that is engaged in the business of a common carrier, or does it apply to a company that is transporting and selling its own gas?

Mr. Booth replied that "It does not make any difference," that:

> The wholesale rate which is covered by the Act would cover, as I understand it, any wholesale rate or charge under which either

> a transmission company or a *producing and transmission company sells* natural gas and which transmits it in interstate commerce to *either a distributing company or another wholesale company.* [Emphasis supplied.]

There was no constitutional objection to such legislation, he explained (*id.*, at 40):

> * * * These companies are supplying gas service and are rendering a service that is dedicated to the public under common law, to public use, and the right of the Government, State or Federal, under appropriate circumstances to regulate the prices under which a company that is devoted to public service, like a gas company or an electric company, or a railroad company, is unquestioned.

These statements, while fully applicable to interstate pipeline transmission companies, or to such transmission companies which are also producers, were not directed to the independent producers and gatherers of gas. The description of what was intended to be covered is of significance for what it does not mention as well as for what it does. Plainly, there was no intention to expand coverage in the area before and after interstate transmission beyond that agreed upon in the earlier bills.

(e) *H. R. 6586 and House Report 709.*—After the hearings on H. R. 4008, some changes were made on that bill but it was never reported out. Instead it was reintroduced as H. R. 6586. The

latter bill was reported to and passed by the House (House Report No. 709 to accompany H. R. 6586, 75th Cong., 1st Sess.), sent to the Senate, reported out there,[27] amended,[28] debated and passed. Section 1 (a) of H. R. 6586 was the same as 1 (a) in H. R. 4008.[29] Section 1 (b) was changed in minor ways to read as it does in the Act.[30]

House Report 709 calls attention to legislative history anteceding H. R. 6586. It states that the bill was originally introduced as H. R. 4008, and describes it as "substantially identical" to H. R. 12680. This, of course, indicates that Congress meant that the subjects of Commission regulation were to be the same as in the earlier bills. House Report 709 in many particulars closely parallels House Report 2651 on H. R. 12680, *supra*, pp. 50–51.

The Report reiterates the intention that "If enacted, the present bill would for the first time provide for the regulation of natural-gas companies transporting and selling natural gas in interstate commerce" (*id.*, at 1), and goes on to

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[27] Senate Report 1162, 75th Cong., 1st Sess. (1937). The Senate Committee adopted the report of the House Committee.

[28] Those amendments are not relevant here.

[29] Here as in earlier bills, attention was called to the Federal Trade Commission Reports, and it was declared that "the business" of transporting and selling natural gas is affected with a public interest.

[30] H. R. 4008, 75th Cong., 1st Sess., Confidential Committee Print No. 1, April 22, 1937, showing subcommittee amendments.

describe the affirmative provisions in Section 1 (b) as follows (at pp. 1–2):

> The States have, of course, for many years regulated sales of natural gas to consumers in intrastate transactions. The States have also been able to regulate sales to consumers even though such sales are in interstate commerce, such sales being considered local in character and in the absence of congressional prohibition subject to State regulation. (See *Pennsylvania Gas Co.* v. *Public Service Commission* (1920), 252 U. S. 23.) There is no intention in enacting the present legislation to disturb the States in their exercise of such jurisdiction. However, in the case of sales for resale, or so-called wholesale sales, in interstate commerce (for example, sales by producing companies to distributing companies) the legal situation is different. Such transactions have been considered to be not local in character and, even in the absence of Congressional action, not subject to State regulation. (See *Missouri* v. *Kansas Gas Co.* (1924), 265 U. S. 298, and *Public Service Commission* v. *Attleboro Steam and Electric Co.* (1927), 273 U. S. 83.) The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held the States may not act.

The latter half of this excerpt together with an isolated statement by Senator Wheeler which, when read in context (see p. 62, *infra*), supports

the Commission's position are the sole portions of the Act's legislative history referred to by the court below. On the basis of this reference, plus its reading of *Missouri* v. *Kansas Gas Co.* and the *Attleboro* case, the court below concluded that sales by independent producers and gatherers, such as those by Phillips here involved, were within the gap which Congress intended to close by its enactment of the Natural Gas Act.

But the *Missouri* and *Attleboro* cases did not involve sales by independent producers and gatherers at the end of the gathering processing. In *Attleboro* the sales of electricity held to be beyond the regulatory power of the States were made in the course of interstate transmission, and are not at all comparable to the present situation. And while the vendor in the *Missouri* case was engaged in production and gathering (which accounts for the House report's reference to "producing company"), it also was engaged in the interstate transportation of natural gas. Moreover, the case involved sales to distributing companies, made long after production and gathering had been completed and after the gas had been transported in interstate commerce. The Court's opinion emphasizes transportation aspects of the vendor's activities. This, rather than the fact that the selling company was also a producer, was the significant feature of the case. Neither the *Missouri* case itself nor the House Commit-

tee's reference to it can be said to suggest that the gap which Congress was trying to fill extended back to the sales by independent producers and gatherers to the transmission pipeline companies. Certainly, there is no intimation in this Committee Report that the bill as enacted was meant to have a coverage much broader than the substantially identical bills, the limited scope of which had been made clear in the earlier legislative history to which reference has been made. Read in historical context the passage in the report relied on by the court below cannot have been intended to have any different meaning than the earlier statements.[21] Any doubts as to this are removed by the debates in Congress discussed immediately below.

(f) *Debates on H. R. 6586.*—The debates in the House and Senate reflect an understanding of the legislators of the purpose and coverage of the bill fully in accordance with the earlier history. The economic functions performed by the separate divisions of the industry, the need for remedial regulation to control the monopolistic practices of the transmission pipelines with regard to their sales, after transmission, to local distribution companies at the city gate, and the necessity for com-

[21] The report itself notes approval of the bill by the Executive Committee of the National Association of Railroad and Utilities Commissioners (H. Rep. No. 709, *supra*, pp. 2–3), an organization which would undoubtedly have protected limitation of the jurisdiction of the States. See pp. 41–42, 51, *supra*.

plementary Federal and State regulation, all were again discussed on the floor of Congress. In contrast sales by independent producers and gatherers were nowhere mentioned as needing federal legislation nor as being within the Act's coverage.

In the House, Representative Halleck, after pointing out that the local distribution companies are subject to State regulation, stated (81 Cong. Rec. 6723):

> * * * the transportation of gas in interstate commerce in the pipe lines and its sale to the distributing companies for resale is not subject to State regulation, and as a result, we have had a situation under which the price charged the distributing company at the city gate has been fixed wholly by the judgment, discretion, or action of the interstate company. It is charged that in many cases that price is excessive. This bill seeks to regulate those prices.

Correspondingly, Mr. Lea, Committee Chairman and principal sponsor of the legislation, indicated the field intended to be regulated as the transportation of gas and its sale by interstate pipeline companies, stating:[32]

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[32] *Id.*, p. 6721. Others pointed to instances of the "monopoly" position occupied by the pipeline companies, *e.g.*, the statement by Representative Cole at p. 6724. In this connection, Representative Cole described the problem in the natural-gas industry giving rise to the need for regulation as being one of "an industry * * * charging what they please at the city gate, a price determined by a private contract with a local company under regulation as to everything

> The primary purpose of the pending bill is to provide Federal regulation, in those cases where the State commissions lack authority, under the interstate-commerce law. This bill takes nothing from the State commissions; they retain all the State power they have at the present time.

Continuing, he said:

> This bill would apply to the transportation of natural gas in interstate commerce and to the sale of natural gas in interstate commerce for resale for public consumption.

Throughout the ensuing discussion, it is apparent that Mr. Lea considered the "transportation" and "sale" subject to Commission jurisdiction to be the transportation and sale of interstate pipeline transmission companies, and regarded "natural-gas companies" as synonymous with pipeline companies. In response to a question by Representative Thompson of Illinois whether there was anything in the bill which would result in regulation of purchases by an industrial consumer from a "pipe-line company," Mr. Lea responded:[33]

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except the price paid to the interstate activity coming from the Panhandle and other parts of the country, which the courts locally cannot reach."

[33] *Id.*, p. 6721.

Shortly after, in response to a question by Representative Greever whether "where * * * each of two States has a public-service commission with jurisdiction of pipe lines this bill in no way affects their control of gas flowing through these pipe lines?", Mr. Lea replied, "This bill would not affect the local distribution of gas, but it might affect the

> Not unless it falls within the class of public consumption. A natural-gas company engaged in the transportation or sale of gas, as I have just indicated, is subject to regulation under this bill.

As to the intended subject of regulation, Representative Halleck said that "Any purchase from an interstate carrier by a distributor for the purpose of resale for ultimate public consumption would be reached." (*Id.*, p. 6723.) [34]

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city-gate rate that the local company would pay if it bought from an interstate company," and "So far as the interstate price is concerned, it may very materially affect it. The interstate price would be subject to regulation by the Federal Power Commission. The city-gate rates in an interstate shipment could be controlled by the Federal Power Commission under this bill."

Mr. Greever then asked: "In other words it would take the power away from the State commission to that extent?" Mr. Lea then stated that "The State commission does not have that power now." And he continued: "The object of this bill is to supply regulation in those cases where the State commission has no power to regulate"—referring obviously to the situation he had just described, involving "city-gate" regulation. He said: "There are, however, some situations defined in the bill to which this regulation does not apply. One is local distribution * * *. So this act does not affect the local distribution of gas. *It affects the local consumer's price only by regulating the price at the city gates.*" [Emphasis supplied.]

[34] *Id.*, p. 6723. The other members of Congress had the same view of the Act's coverage. Accordingly, much of the discussion respecting the intended scope of regulation under the bill centered on the "city-gate rate that the local company would pay if it bought from an interstate company." Representative Cole of Maryland, referring to "pipe line

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Representative Mapes declared that (*id.*, p. 6726):

> It [the bill] gives the Federal Power Commission power to fix the cost of the transportation of natural gas shipped in interstate commerce and the wholesale price which may be charged for it at the consuming centers.[35]

Representative Wolverton had earlier expressed the view respecting the intended coverage of the bill's provisions that (*id.*, at 6723):

> The State regulatory bodies have wide and comprehensive jurisdiction to fix rates and otherwise regulate and control the sale of natural gas to consumers within the State but do not have any jurisdiction in fixing the rate to the distributing company or the municipality when the purchase of gas is made from an outside source. This comes within the field of interstate commerce and the jurisdiction over such is denied entirely to the State regulatory bodies and lodged completely in the Federal Congress.

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regulation" and the need to improve the "rate structure at the city gate," said:

"Upon the passage of this bill, a company enjoying, you might say, a monopoly in the city of Chicago, if but one line serves that city, would be forced to charge a fair and reasonable rate * * *" (*id.*, p. 6724).

[35] Representative Kenney of New Jersey said that the legislation was necessary because of the great difficulty State commissions had had in fixing reasonable rates for consumers, "for the reason that State commissions have had no power over the interstate activities of the pipe-line companies" (*id.*, p. 6726).

The fact that this "field" was the gap in regulation, and that Federal regulation was intended to extend to this gap only, is made even more explicit in the discussion of the bill in the Senate. At the very outset, Senator Austin asked Senator Wheeler, Chairman of the Senate Committee (81 Cong. Rec. 9312):

> Does the bill undertake to regulate the production of natural gas or does it undertake to regulate the producers of natural gas?

Senator Wheeler, in the sentence quoted by the court below, replied:

> It does not attempt to regulate the producers of natural gas or the distributors of natural gas; only those who sell it wholesale in interstate commerce.

Senator Austin pursued the matter further. He asked, "Is the bill limited in its scope to the regulation of transportation?" Senator Wheeler replied, "Yes; it is limited to transportation in interstate commerce, and it affects only those who sell gas wholesale" (*id.*, p. 9312). Later, he described at length a "purpose of the bill" as being to help the State commissions find out "what is the cost of transporting natural gas to the larger cities." The lack of power he referred to as follows (*id.*, p. 9314):

> It does not do any good to give the Illinois commission the power to regulate the price of gas in the city of Chicago if they can be

> held up—and that is all it is—by pipe-line companies which ship the gas to Chicago and be told, "It is going to cost the city of Chicago so much at wholesale for this gas." What good does it do the people of Chicago if they cannot reach the wholesale price and do something to regulate the pipe-line companies which transport the gas into the city of Chicago?

Accordingly, the "only purpose of the bill" was to help the states secure effective regulation by closing this gap in the industry. The bill was to provide effective regulation of the company which "ships the gas" and its charges, e. g., to the City of Columbus or the City of Cleveland (*id.*, p. 9313), the "wholesale prices that the pipe-lines charge," and the "wholesale rate that is charged at the gate" (*id.*, p. 9315). And it was considered that the production of gas [36] and the distribution of gas [37] would enter into such regulation, if at all, only indirectly as to those instances where the pipe-line interests controlled either production or distribution.

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[36] Cf. the question by Senator Connally at p. 9314, "if a man should produce gas in my State and ship it in interstate commerce, then he would have to sell it at the price fixed by the Commission?" to which Senator Wheeler replied, "Exactly; at the wholesale price fixed by the Commission."

[37] At pp. 9314–9315, Senator Clark said in this connection that the bill is "designed on the theory of preventing the situation which now exists, by which a chain or a system may deliver gas at a State line to a company owned by this system," and ignore the local utility commission in its efforts to ascertain the facts on the basis of which to set rate.

(g) *Summary of legislative history.*—This review of the history of the Natural Gas Act shows that prior to its enactment, the monopolistic pipeline companies were engaged in practices harmful to the independent producers and gatherers of natural gas as well as to the local distribution companies and ultimate consumers. The Act was intended to correct these evils through federal regulation, inasmuch as the States under the earlier decisions of this Court were constitutionally without power to act in regard to these interstate activities.

In sharp contrast to the situation in the central or transmission division of the industry, the production and gathering division was highly competitive, with competition operating to keep prices at a fair and reasonable level. It was generally assumed that the activities of production and gathering, including the sales of gas made at the termination thereof, were local in character and subject to state regulation. While there are repeated references to the need for federal regulation of the pipeline companies, nobody at any time that the Act was under Congressional consideration suggested that the federal Government should regulate any phase of the production and gathering business; on the contrary, there is clear manifestation of an intent not to impose federal regulation upon these activities. Due regard for the history of the Act thus requires that it be construed, in the light

of the mischief it was meant to remedy, to exempt the activities of the independent producers and gatherers from federal regulation.

B. THE COMMISSION HAS UNIFORMLY INTERPRETED THE ACT TO EXCLUDE TRANSPORTATION AND SALES SUCH AS THOSE HERE INVOLVED

The Commission from the very inception of its administration of the Natural Gas Act of 1938, has consistently held that Congress has not delegated to it power to regulate the business of production and gathering, including sales made at the termination thereof to a transmission pipeline company. The Commission has uniformly held that such sales are within the production and gathering exemption contained in Section 1 (b) of the Act. The Commission stated in its opinion (R. V 1720–1721), "[i]n no case in its history has this Commission held that the Act gives it jurisdiction over a company solely by reason of its movement of gas in interstate commerce or sales in interstate commerce for resale, where such movement or sales take place in the process of production or gathering." Commission regulation under the Act has extended only to interstate transportation and interstate sales *after the completion* of production and gathering and before the beginning of local distribution. Sales made during or immediately upon the completion of production and gathering and as a part of that business have consistently been held exempt. *Columbian Fuel Corporation,* 2 F. P. C.

200 (1940); *Billings Gas Co.*, 2 F. P. C. 288 (1940); *Interstate Natural Gas Co., Inc.*, 3 F. P. C. 416 (1943); *The Fin-Ker Oil and Gas Production Co.*, 6 F. P. C. 92 (1947); *The Chicago Corporation*, 6 F. P. C. 98 (1947); *Kansas-Nebraska Natural Gas Co., Inc.*, 6 F. P. C. 664 (1947); *R. J. and D. E. Whelan*, 6 F. P. C. 672 (1947); *Hassie Hunt Trust*, 6 F. P. C. 835 (1947); *Sinclair Prairie Oil Co.*, 6 F. P. C. 1059 (1947); *La Gloria Corporation*, 7 F. P. C. 349 (1948); *Superior Oil Company*, 7 F. P. C. 627 (1948); *General Crude Oil Company*, 7 F. P. C. 1024 (1948).

The interpretation of a statute by the agency which administers it is entitled to great weight in determining the existence of a questioned agency power. *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 513; *Federal Trade Commission* v. *Bunte Brothers*, 312 U. S. 349, 351, 352; *Norweigan Nitrogen Prod. Co.* v. *United States*, 288 U. S. 294, 315; *United States* v. *American Trucking Associations*, 310 U. S. 534, 549; see Gellhorn, *Administrative Law, Cases and Comments* (2d Ed., 1947), p. 204; *United States* v. *California Public Utilities Commission*, 345 U. S. 295, 314–315. This Court, in the *Bunte Brothers* case, pointed to the refusal of an agency to assert a questioned power as a "powerful indication" that such power is lacking (312 U. S. at 351–352). Likewise, in the *Panhandle* case, the Court noted in a comparable situation (337 U. S. at 513) "Thus for over

ten years the Commission has never claimed the right to regulate dealings in gas acreage."

The Commission's interpretation of the provision of the Act here involved began with *Columbian Fuel Corporation,* 2 F. P. C. 200 (1940), which presented the identical question. The decision in that case was made scarcely two years after the Act was approved, at a time when four of the five Commissioners had been in office both when the Act was passed and when predecessor bills were under consideration in Congress. In that case Columbian sold gas to an interstate transmission pipeline company from the termini of Columbian's gathering lines, and from its compressor station adjacent to some of the producing areas. The Commission held that it did not have jurisdiction over such sales, saying (2 F. P. C. at 207):

> Clearly, Congress thought it was closing the gap in regulation of the natural-gas industry by providing Federal Power Commission regulation of companies whose main function was to transport natural gas through interstate pipe lines and sell gas so transported at city gates for resale to ultimate consumers.
>
> The companies to be subjected to regulation were conceived of as "pipe line" companies, and it was assumed that production and gathering would enter the field of regulation only to the extent that the "pipe line" companies, either directly or through affil-

iates, controlled the production or gathering of the gas so transported.

The Commission concluded (p. 208):

> * * * that it was not the intention of Congress to subject to regulation under the Natural Gas Act all persons whose only sales of natural gas in interstate commerce, as in this case, are made *as an incident to and immediately upon completion of such person's production and gathering of said natural gas* and who are not otherwise subject to the jurisdiction of this Commission. [Emphasis supplied.]

The Commission has adhered to this construction. In *Billings Gas Company*, 2 F. P. C. 288, it reaffirmed its earlier conclusion that a corporation which "engaged in the production and gathering of natural gas and [which] made disposition of its product immediately upon completion of these operations" came within the Section 1 (b) exemption. The Commission pointed out that (2 F. P. C. at 289):

> A person, however, engaged in the production and gathering of natural gas *and the subsequent transportation,* or *transportation and sale,* thereof in interstate commerce, would not fall within the same category. [Emphasis supplied.]

Accordingly, after finding that the Billings Company and other companies there involved engaged in such transportation, or transportation followed

by sale, the Commission found them to be "natural-gas companies" subject to its regulation.

The Commission in 1943 in *Interstate Natural Gas Co., Inc.*, 3 F. P. C. 416, asserted jurisdiction over certain sales by Interstate on complaint of the Louisiana Commission. The jurisdictional dispute involved Interstate's sales of gas in the Monroe field in northern Louisiana to three interstate pipeline transmission companies. Interstate, which was admittedly a "natural-gas company" by reason of operations other than the sales in question, produced and gathered gas of its own and also purchased gas from others in the Monroe field. Thereafter, as the Commission found (3 F. P. C. 420):

> Interstate transports the gas which it buys from such companies in the Monroe field and commingles that gas with gas which it has produced and gathered in the Monroe field, and then transports this commingled gas to the points of sale and delivery in Louisiana to the Mississippi River Fuel Corporation, Southern Natural Gas Company, and United Gas Pipe Line Company for the account of Memphis Natural Gas Company.

Interstate's activities thus constituted the "production and gathering of natural gas and [also] the subsequent transportation, or transportation and sale" to which reference was made in the *Billings Company* case. The fact of subsequent transportation or transportation and sale in addi-

tion to its production and gathering accordingly was the basis of the Commission's decision subjecting Interstate to jurisdiction and regulation."

After this Court had affirmed the Commission's order in the *Interstate* case, in a decision discussed at pp. 81–88, *infra*,[29] the Commission handed down a number of decisions adhering to its prior administrative interpretation of the Act. The Commission again in *Fin-Ker Oil and Gas Production Company*, 6 F. P. C. 92, 94 (1949), had before it the question whether it had jurisdiction over a company whose "natural gas operations are confined to the production and gathering and the sale upon completion of gathering." The Com-

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[28] The further statement of the Commission in *Interstate* referred to by the dissenting Commissioner (R. V 1806) is not to the contrary when read in the context of the Commission's finding that the sale occurred after the gas was transported in interstate commerce subsequent to the completion of production and gathering. Similarly there is nothing inconsistent in the Commission's actions in *The Peoples Natural Gas Co.*, 2 F. P. C. 704, considered in *Peoples Natural Gas Co.* v. *Federal Power Commission*, 127 F. 2d 153 (C. A. D. C.), certiorari denied, 316 U. S. 700; 5 F. P. C. 761. That case never went beyond the preliminary stage of Commission investigation into whether the company was a natural-gas company, and the Court held that in the course of such an investigation the Commission was entitled to subpoena the records of the company showing the cost of service. Moreover, the sale there involved was to an affiliate which transported the gas in interstate commerce prior to resale and consequently squarely within the exception recognized by the Commission in the *Columbian* case, *supra*, pp. 67–68.

[29] Cf. *Interstate Natural Gas Co., Inc.* v. *Federal Power Commission*, 156 F. 2d 949 (C. A. 5), affirmed, 331 U. S. 682.

mission was consistent in concluding that (6 F. P. C. at 98):

> where a person not otherwise subject to the jurisdiction of the Commission, is engaged in production or gathering of natural gas exclusive of its transportation in interstate commerce and makes arm's-length sales and deliveries of natural gas in interstate commerce as an incident to or upon completion of that person's production or gathering, the provisions of the Natural Gas Act do not apply.

Similarly, in the *Chicago Corporation* case, 6 F. P. C. 98 (1947), the Commission, pointing to its decision in the *Fin-Ker* case that it had no jurisdiction over sales made "as an incident to or upon completion of that person's production or gathering," held that Chicago's operations did not constitute it a "natural-gas company." It said that Chicago (p. 103):

> * * * has no transmission facilities. It is a company engaged primarily in the production, gathering and processing of natural gas and the delivery and sale of such gas at the outlets of cycling plants or direct from wells into field or transmission lines owned by others.

This position the Commission has maintained consistently in all subsequent cases. See *supra*, p. 66.

Notwithstanding this uniform course of interpretation revealed by decided Commission cases, there has been some uncertainty as to the applicability of the "gathering" exemption to the situa-

tion here involved. The broad language of the Court of Appeals for the Fifth Circuit in the *Interstate* decision, 156 F. 2d 949, 951–952, added to the doubt. This Court, in affirming, declared that it was not passing on the "validity of the jurisdictional tests employed by the Commission" in the *Columbian* and *Billings* cases, 331 U. S. 682, 690–691, thereby leaving the point open. The Commission, to allay all doubts and to reaffirm its past construction of the Act, issued its Order No. 139, 12 F. R. 5585, on August 15, 1947, so that there might be "no basis for misunderstanding or continuing expressions of fear and uncertainty regarding this matter." The Commission stated that it "is of the opinion that it was the intent of the Congress that the control of production or gathering of natural gas should remain a function of the States and that the Natural Gas Act should not provide for regulation of those subjects," and that "For the purpose of administering the Natural Gas Act, the Commission will construe the exemption contained in Section 1 (b), to the effect that the provisions of the act shall not apply to the 'production or gathering' of natural gas, as including arm's-length sales of natural gas, by independent producers and gatherers, made during the course of or upon completion of production and gathering (12 F. R. 5585–5586).

The Commission in 1948 handed down three additional decisions consistent with Order No. 139 and prior decisions of the Commission.[40] Then, in light of the President's veto of H. R. 1758[41] and the pendency of the proceeding in the present case culminating in the order here involved, the Commission in 1950 rescinded Order No. 139.[42]

The court below failed to mention, let alone give any weight to, this long-continued and consistent interpretation placed upon the Act by the administrative agency charged with the duty of administering the Natural Gas Act. But the Commission's uniform disclaimer of jurisdiction, since the early days of the Act, over sales by independent producers and gatherers is a significant factor in the construction of the statute.

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[40] *La Gloria Corporation*, 7 F. P. C. 349, *Superior Oil Company*, 7 F. P. C. 627, *General Crude Oil Company*, 7 F. P. C. 1024.

[41] The bills introduced in Congress during 1947–1948 designed to place varying limits on the Commission's jurisdiction were detailed by the Commission in its opinion (R. V 1723). During the second session of the Eightieth Congress, H. R. 4051, the so-called Moore-Rizley bill, was passed by the House but not the Senate. Later, H. R. 1758, the House version of the so-called Kerr bill, was passed by both the Senate and the House during the Eighty-first Congress. This bill was vetoed by the President on April 15, 1950. See H. Doc. No. 555, 81st Cong., 2d Sess. (1950).

[42] Order No. 154, issued July 13, 1950 (15 F. R. 4633).

C. THE COMMISSION'S DETERMINATION THAT THE SALES WERE A PART OF "GATHERING" IS BINDING UPON THE COURTS BECAUSE IT HAS REASONABLE BASIS IN LAW AND IS SUPPORTED BY THE EVIDENCE

The Natural Gas Act does not explicitly define the terms "production or gathering" contained in the exempting provisions of Section 1 (b) of the Act. The statute does not state the criteria for determining what elements shall fix the character of "production or gathering" in relation to the Act's coverage. Congress thus left the matter of definition to the expert judgment of the Commission, subject to judicial review in the event of an abuse of administrative discretion in this regard. Under the statute, the Commission was charged with the responsibility of using its judgment in applying the statutory standard of "production or gathering" to the facts of the case. This is particularly true where a term, like "gathering," which has a specialized meaning in an industry, is used for then the determination of the coverage of the Act may depend upon appraisal of evidence as to what that specialized meaning is. *O'Hara* v. *Luckenback S. S. Co.*, 269 U. S. 364, 371; *Order of Conductors* v. *Swan*, 329 U. S. 520, 525.

This Court has often held that "where the question is one of specific application of a broad statutory term in a proceeding in which the agency administering the statute must determine it initially, the reviewing court's function is limited,"

National Labor Relations Board v. *Hearst Publications, Inc.*, 322 U. S. 111, 131. This means that the administrative determination "is to be accepted if it has 'warrant in the record' and a reasonable basis in law" (*ibid.*), that "the judicial function is exhausted when there is found to be a rational basis for the conclusions approved by the administrative body" (*Rochester Telephone Corp.* v. *United States*, 307 U. S. 125, 146). See in addition to the cases cited, *Gray* v. *Powell*, 314 U. S. 402; *South Chicago Coal & Dock Co.* v. *Bassett*, 309 U. S. 251; *Shields* v. *Utah Idaho Central R. R.*, 305 U. S. 177; *Unemployment Compensation Commission* v. *Aragon*, 329 U. S. 143; *Sunshine Anthracite Coal Co.* v. *Adkins*, 310 U. S. 381, 399; *Cardillo* v. *Liberty Mutual Co.*, 330 U. S. 469; *Swayne & Hoyt, Ltd.* v. *United States*, 300 U. S. 297; *Virginian Ry.* v. *United States*, 272 U. S. 658; *United States* v. *Louisville & N. R. R.*, 235 U. S. 314; *Interstate Commerce Commission* v. *Union Pacific R. R.*, 222 U. S. 541.

The issues in those cases were of the same type as that involved here. Whether particular facts come within the concept of "gathering" raises the same sort of question as whether a carrier is an "interurban railway" (*Shields* v. *Utah, Idaho Central R. Co., supra*); whether a particular coal is "bituminous" (*Sunshine Anthracite Coal Co.* v. *Adkins, supra*); whether a particular person is a "producer" of coal (*Gray* v. *Powell, supra*); whether one company has "control" of another

(*Rochester Telephone Corp.* v. *United States, supra*); whether particular persons are "employees" (*National Labor Relations Board* v. *Hearst Publications, supra*); whether employees are "members of the crew" (*South Chicago Coal & Dock Co.* v. *Bassett, supra*); or are injured "in the course of employment" (*Cardillo* v. *Liberty Mutual Co., supra*); or whether there is a "labor dispute in active progress" (*Unemployment Compensation Commission* v. *Aragon, supra*). In each of the cases cited, the Court upheld the administrative application of the statutory phrase cited so long as it had a reasonable basis in law and was supported by evidence in the record.

In this case the question is whether there is reasonable basis for the Federal Power Commission's finding that the sales here in question are a part of "gathering." As shown in the statement, *supra*, pp. 9–17, witnesses with long experience in the natural gas industry and familiar generally with the operations taking place in the gas fields and plants and in particular with Phillips' activities testified with regard to the commonly accepted meaning of "gathering" in the industry. Most of the witnesses were in agreement that the activities of Phillips, including its sales at the termination of production and gathering to the transmission pipelines, were encompassed within the concept of gathering. Their testimony showed that the gathering business was regarded as a single enterprise running

from the wellhead to the final sale to the interstate transporter.

Moreover, as already discussed, the legislative history shows that the Act was conceived and drafted in terms of the economic functions performed by the separate divisions of the industry; that the economic function or business of gathering—the "gathering business" and "gathering rates" at the one end and local distribution at the other—were meant to be exempt from federal regulation; and that the business of transporting gas from the producing fields to the consumer markets and sales by companies engaged in such business, was the intended subject of Commission regulation (*supra,* pp. 29–65). The Commission's course of administrative construction has been consistent with this legislative background (*supra,* pp. 65–73).

Evaluating the evidence in light of this industry concept of gathering, the economic interrelationship among all of Phillips' natural gas activities, and the pertinent legal materials, the Commission found that the function of the lines moving the natural gas to each of Phillips' processing plants was that of gathering, and that such movement of gas and the lines themselves constituted a part of gathering and accordingly fell within the exemption (R. V 1743). The Commission also found that the processing of gas to make it saleable or to recover extractable products, or both, as well as the short lines from the

plants to the points of sale, were a "part of Phillips' gathering business" or "at least exempt as an incident of or activity related to its gathering process" (R. V 1743). The sales, the "end product of production and gathering, * * * [are] a part of Phillips' gathering business, or at least an exempt incident thereof" (R. V 1744).

These findings are shown to be reasonable by the evidentiary and other materials heretofore summarized. They show that in dealing with questions of this type the administrative agencies are not left merely with the function of "taking testimony to be submitted to the court for ultimate action" *United States* v. *Louisville and Nashville R. R.* 235 U. S. 314, 321. The decisions of this Court, cited *supra*, pp. 74–76, clearly holds that when it is found that the administrative determination has a basis in fact and does not lack a reasonable support in law, the judicial function is exhausted. The court below gave no weight to such a determination by the Commission that Phillips' sales were a part of "gathering" but treated the case as if it merely raised a question of law (R. V 1849–1850). In so doing the court misconceived the teaching of the cases cited above, which recognize that questions of this sort call for the expert judgment of the administrative agency. Since the Commission's determination was a reasonable one and warranted in the record, it should have been upheld.

D. THE COURT BELOW MISCONSTRUED THE PRIOR DECISIONS OF THIS COURT

The court below ruled that this Court's decisions were contrary to the C mmission's position that sales of natural gas such as those here involved were not subject to Commission regulation. The cases relied on were *Colorado Inter-State Gas Co.* v. *Federal Power Commission,* 324 U. S. 581, and *Interstate Natural Gas Co.* v. *Federal Power Commission,* 331 U. S. 682 (R. V 1844–1847). At the same time, the court treated as irrelevant the later decisions of this Court in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.,* 337 U. S. 498, and *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.,* 340 U. S. 179 (R. V 1849, fn. 13, 1847, fn. 9). None of these cases pass on the question here presented. On the contrary, they leave the point open. On the whole, however, they furnish considerable support for the Commission's decision here rather than that of the court below.

1. *The Colorado Interstate* case.—The *Colorado Interstate* case, on its face, clearly does not pass on the present issue. The affiliated companies involved in that case, in addition to producing and gathering, also owned an "interstate transmission system" (R. V 1845). The issue was whether the Commission in fixing the rates for sales made after transmission in interstate commerce, long after the completion of production and gathering, could include Canadian's produc-

tion and gathering facilities in the rate base (R. V 1845). The Court held only that in determining the rate base for gas sold by a pipeline company *after* transmission in interstate commerce, the Commission could (but was not required to) take into account the cost of the companies producing and gathering operations (324 U. S. at 601–602). In so holding, the Court cautioned (324 U. S. at 602–603):

> That does not mean that the part of Section 1 (b) which provides that the Act shall not apply "to the production or gathering of natural gas" is given no meaning. Certainly that provision precludes the Commission from any control over the activity of producing or gathering natural gas. For example, it makes plain that the Commission has no control over the drilling and spacing of wells and the like. It may put other limitations on the Commission. We *only* decide that it does not preclude the Commission from reflecting the production and gathering facilities of a natural gas company in the rate base and determining the expenses incident thereto for the purposes of determining the reasonableness of rates subject to its jurisdiction. [Italics supplied.]

Since, in *Colorado Interstate* there was no attempt to regulate sales to a pipeline company at the termination of gathering, the case has little significance here.

2. The *Interstate* case. While somewhat closer to the case at bar than *Colorado Interstate*, the *Interstate* case also did not require the court below to reach the result which it did. Most significant, we submit, is the fact that in its one direct reference to the line of Commission decisions which reflected the Commission's position in the present case (see pp. 65–73, *supra*), this Court stated that it was expressing no opinion, saying (331 U. S. at 690, note 18):

> The Federal Power Commission has not asserted jurisdiction over all sales taking place in the natural gas fields even though in interstate commerce for resale for ultimate public consumption. *In the Matter of Columbian Fuel Corp.*, 2 F. P. C. 200; *In the Matter of Billings Co.*, 2 F. P. C. 288. We express no opinion as to the validity of the jurisdictional tests employed by the Commission in these cases.

The *Interstate* case is also factually distinguishable. The Commission had found that Interstate purchased certain gas gathered by others in the Monroe Field, commingled that gas with gas which it had produced and gathered, and after the completion of gathering, then transported the commingled gas to the points of delivery for sale to others for resale. *Interstate Natural Gas Co.*, 3 F. P. C. 416, 420. Its position, as disclosed in its brief filed in this Court, was that, on the basis of its findings, Interstate was engaged in "trans-

porting" the gas *after the completion of gathering and prior to the sales* (see Brief for Respondent in No. 733, Oct. T. 1946, pp. 29–33).

This Court's decision may not have turned on this distinction (331 U. S. at 692). But the Court did emphasize another distinguishing factor, that (p. 691):

> There is nothing in the record to indicate that the regulation in question is in any way inconsistent with the exercise by Louisiana of the powers over production and gathering of natural gas reserved to it by Congress in § 1 (b) of the Act. * * * The record is devoid of any suggestion that Louisiana has ever opposed the jurisdiction of the Federal Power Commission in this case or has ever urged that federal regulation of the sales in question would interfere with the exercise by the State of its regulatory functions.

The Court then went on to state (p. 692) that it was not suggesting that the—

> jurisdiction of the Commission in any case is to be determined by the resistance or lack of resistance on the part of the State to federal regulation. But in evaluating the Company's contention that the State's powers have been invaded, we regard it a matter of some significance that although the State has freely exercised its regulatory powers over the production and gathering of natural gas, there is no evidence of any conflict, present or threatened, in the per-

forming of those functions by the State with the exercise of the jurisdiction of the Federal Power Commission in this case.

In the instant case there was not only direct opposition to the exercise of the Federal Commission's jurisdiction by the States immediately concerned, Oklahoma, Texas, and New Mexico, but also detailed evidence that regulation by the Federal Commission would substantially interfere with and conflict with the States' regulatory powers. Texas: R. II 375–520, 557–592; Oklahoma: R. II 602–619; New Mexico: R. II 521–557.

Moreover, the evidence showed that the maximum-price regulation provided by the Gas Act would interfere with the conservation functions of the states concerned.[43] The witnesses for these states testified as to the direct relationship of price to conservation.[44] Price increases have been

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[43] Oklahoma: Title 52 Okl. St. Ann. (1941), particularly Sections 81–87.1, 97–113, 201–203. Texas: Title 102, Vernon's Civil St. Tex. Ann. (1949), particularly Articles 6008, 6008a, 6008b, 6014, 6014a, 6015, 6016, 6029, 6036a, 6045–6046, 6049a, to e, 6050–6060. New Mexico: Ch. 69 New Mex. St. Ann. (1941), Sections 69–201 to 69–231.

[44] Murray (Chairman, Texas Railroad Commission), R. II 428–431, 437–440, 442–448, 449, 453–456, 458–459; Baumel (Chief Engineer, Texas Railroad Commission), R. II 513, 514–516, 517–519, 558–560, 566; Spurrier (Secretary of the Oil Conservation Commission of New Mexico), R. II 523–526, 528–530, 532, 547–549, 552–553; Capshaw (Engineer for Corporation Commission of Oklahoma), R. II 604–605, 605–606, 607; Jones (Member of Corporation Commission of Oklahoma), R. II 609–611.

prerequisite to successful State conservation regulation (R. II 547–549). A higher price for gas makes economically feasible the more expensive production methods necessary to avoid waste through premature abandonment, particularly as to initially low-producing marginal wells. (R. II 438–439, 442, 443–446, 516–517, 566, 604–605). That this is important is emphasized by the necessity for use of expensive equipment in "secondary recovery techniques", required not only to produce the gas remaining after pressure has so declined as to preclude further production without extractive machinery but also to effect more complete recovery by requiring use of such techniques initially (R. II 399, 439–440, 442, 516, 517, 604).

A similar relationship of price was shown to obtain with respect to State well-spacing programs (R. II 609–611). The size of the spacing unit is greatly affected by the price of gas (R. II 605–606). Thus, when price is depressed in Texas, its spacing rules become impossible to administer (R. II 515–516). Likewise, in fixing the size and shape of spacing units, Oklahoma considers the price of gas and the economics of drilling (R. II 609–611). In New Mexico, the unit is the area which may be efficiently and economically drained by one well.[46]

---

[46] N. Mex. Stat., Ch. 69, § 69-2131/2(b) (Cum. Supp. (1951)).

The effect of the price paid producers and gatherers was shown to be even more direct in relation to State efforts to conserve gas produced in association with oil, that is, casinghead gas (R. II 445, 449–450, 451–452, 513, 518–519, 532–534, 548–549, 552–553). Many billions of cubic feet of such gas have been wasted in the past through the venting or flaring of oil wells (R. II 387–389, 444–445, 524–526, 559–560). Such wastage continues today in substantial quantities (R. II 454–455, 465, 473–474). The primary reason for this wastage is the insufficiency of the price to meet the costs of gathering and other operations necessary for the marketing of such gas (R. II 431, 438–439, 444–445, 451, 458, 474–475). Texas has ordered 17 oil fields shut in until casinghead gas could be gathered, marketed, or otherwise utilized (R. II 406–407, 518–519). State officials have viewed the validity of such orders as depending upon whether it was economically feasible to utilize the gas (R. II 429–430, 518–519).

Moreover, grave concern was expressed lest Commission jurisdiction over sales such as those of Phillips interfere with Texas' reinjection orders (R. II 461–462, 467–468). To maintain pressure and increase recovery of oil, Texas was then on the threshold of ordering reinjection not only of casinghead gas but also other gas in the Scurry field (R. II 396–399, 408–409). In the Shafter Lake-Devonian field, an order was issued

requiring return to the reservoir of all the gas and all the water produced (R. II 403–404). This directly affects Phillips' operations since gas from the field is processed at Phillips' Fullerton plant and sold to El Paso (R. II, 404–405, 408–409). But Texas indicated it would not be deterred even though the gas involved in such orders is committed to other sources (R. II 408–409), saying "We just have to take it away from the pipe lines right now but they are liable to need it more in the future" (R. II 403).

Commissioner Murray of Texas summarized this testimony in asserting that there is no jurisdiction the Commission might exercise over Phillips "without conflict resulting" (R. II 478–479). Of course, if the federal statute clearly authorized the exercise of power by the Federal Commission, such a conflict would not bar the federal jurisdiction. E. g., *Northern Natural Gas Co.* v. *Federal Power Commission*, 206 F. 2d 690 (C. A. 8), certiorari denied, 346 U. S. 922, pending on petitions for rehearing. But the *Interstate* opinion indicates that the possibility of such a conflict is a factor to be considered in determining whether Congress intended the federal jurisdiction to go that far. As the Court knows, Congress was seeking to fill a jurisdictional gap, not to supersede pre-existing state authority.

The evidence summarized above therefore does more than show that the *Interstate* case is distinguishable. It indicates that under the *Inter-*

state opinion the Commission was warranted in reaching the conclusion it did in the instant case.

As an additional basis for its decision, the court below held that the Commission had misinterpreted the statement in the *Interstate* opinion (p. 690), that the gathering exemption applied "where sales * * * are made during the course of production and gathering *and* are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions * * *." [Italics added.] The court emphasized that in its finding at R. V 1752–1753, the Commission had substituted "or" for "and," by concluding that Phillips' sales "constitute a part of its gathering business, *or* they are incidents of *or* activities related to such business" (R. V 1847–1848). But the court overlooked the dual basis of the Commission's conclusion. The finding quoted parallels, and was related to, this Court's discussion in the *Panhandle* case, not *Interstate,* and as to that the use of "or" was proper, see *infra,* pp. 88–90. On the other hand, in the portion of its treatment which applies the test set forth in the *Interstate* case, the Commission's finding, following the Court's language in the latter case, is in the conjunctive (R. V 1745). The Commission thus stated:

> these sales are made "during the course of production and gathering." *And* we ex-

pressly find that they are so closely connected with the local incidents of that process as to render rate regulation by this Commission inconsistent or a substantial interference with the exercise by the affected States of their regulatory functions. [Italics added.]

It is clear that the Commission made the express finding that the sales are in the course of gathering,[*] and not merely a finding in the alternative.

Further, this Court's language in the *Interstate* case, as well as in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 506, discussed immediately below, suggests that the gathering exemption covers not merely the physical processes but "incidents connected with" (*ibid.*) gathering. It was not unreasonable, therefore, particularly in the light of the legislative history referred to above, for the Commission to regard the sale at the immediate end of gathering as such an incident, rather than as an aspect of the subsequent transportation.

3. *The Panhandle case.*—Although *Panhandle*, like *Colorado Interstate* and *Interstate*, does not pass upon the general question presented here, it reflects a concept of the "production or gathering" exemption broader than that adopted by the

[*] The court below so noted in a footnote and stated that it disagreed with this finding (R. V 1848, fn. 11).

court below and more akin to that of the Commission.

In *Panhandle*, the Commission claimed that the Act vested it with jurisdiction over the transfer of gas leases issued by a pipeline company in connection with its own production and gathering facilities. The Court rejected that contention and held instead that these gas leases were excluded from Commission jurisdiction by virtue of the production and gathering exemption. In so holding, the Court refused to construe the exemption as being limited only to the physical activities of production and gathering, stating "we cannot ascribe such a narrow meaning to the words, 'the production or gathering of natural gas'" (337 U. S. at 504). It examined the Act's legislative history (337 U. S. at 505, fn. 7; 509, fn. 15), which it stated (337 U. S. at 512–513):

> * * * is replete with evidence of the care taken by Congress to keep the power over the production and gathering of gas within the states. This probably occurred because the state legislatures, in the interests of conservation, had delegated broad and elaborate power to their regulatory bodies over all aspects of producing gas. The Natural Gas Act was designed to supplement state power and to produce a harmonious and comprehensive regulation of the industry. Neither state nor federal regulatory body was to encroach upon the jurisdiction of the other. Congress enacted this Act after full

consideration of the problems of production and distribution. It considered the state interests as well as the national interest. It had both producers and consumers in mind. Legislative adjustments were made to reconcile the conflicting views.

On the basis of this history, the Court concluded that the exemption included not only the activities of production and gathering, but in addition "incidents connected with" and "activit[ies] related to" such production and gathering (337 U. S. at 506, 515).

The Court thus held that "production or gathering of natural gas" embraced more than merely the physical activities of production and gathering. In addition, its reading of the legislative history, which parallels generally that of the Commission in this case, strongly suggests that the Commission, rather than the court below, adopted the proper approach in seeking to ascertain the scope of the exemption."

4. *The Cities Service case.*—While the *Cities Service* case similarly does not pass upon the

" A footnote at the end of the *Panhandle* opinion calls attention to the present problem and notes that it was then before Congress; the footnote quotes from a portion of a Report subscribed to by two Commissioners, as follows (337 U. S. at 516, fn. 25):

"No reasonable basis is found in the Act or its legislative history for a conclusion that, although the 'activities' of production and gathering are exempt under Section 1 (b), sales of natural gas which are made at arm's length by producers and gatherers who do not thereafter transport it in interstate commerce may be regulated."

general question presented here, it not only shows that this Court has not considered that it had previously passed upon the question (340 U. S. at 188–189), but indicates a view as to the importance of local regulation in the interest of conservation which might well have an important bearing upon the reading to be accorded the exemption for production and gathering.

In *Cities Service,* the issue presented insofar as here pertinent, related to the power of the State to fix minimum prices at the wellhead on natural gas produced within its borders and sold interstate. Basing its conclusion on decisions, many of which antedated the enactment of the Natural Gas Act (340 U. S. at 186–187), the Court held that the Commerce Clause did not preclude such regulation by the States, commenting (340 U. S. at 187–188):

> That a legitimate local interest is at stake in this case is clear. A state is justifiably concerned with preventing rapid and uneconomic dissipation of one of its chief natural resources. * * *
>
> We recognize that there is also a strong national interest in natural gas problems. But it is far from clear that on balance such interest is harmed by the state regulations under attack here. Presumably all consumers, domestic and industrial alike, want to obtain natural gas as cheaply as possible. On the other hand, groups connected with the production and transporta-

tion of competing fuels complain of the competition of cheap gas. Moreover, the wellhead price of gas is but a fraction of the price paid by domestic consumers at the burner-tip, so that the field price as herein set may have little or no effect on the domestic delivered price. Some industrial consumers, who get bargain rates on gas for "inferior" uses, may suffer. But strong arguments have been made that the national interest lies in preserving this limited resource for domestic and industrial uses for which natural gas has no completely satisfactory substitute. See generally, Federal Power Commission, Natural Gas Investigation (1948); *Federal Power Comm'n* v. *Hope Natural Gas Co.*, 320 U. S. 591, 657–660 (1944) (dissenting opinion). Insofar as conservation is concerned, the national interest and the interest of producing states may well tend to coincide. In any event, in a field of this complexity with such diverse interests involved, we cannot say that there is a clear national interest so harmed that the state price-fixing orders here employed fall within the ban of the Commerce Clause.

This reasoning is as applicable to sales at the end of gathering as to sales at the well. It recognizes the importance to the producing states that they be able to take appropriate steps, including the fixing of minimum prices, to prevent uneconomic dissipation of this wasting of a natural resource. And it also seems inconsistent with

the apparent premise of the decision below that all wholesale sales of natural gas in interstate commerce are beyond the power of the states to regulate and so within the gap intended to be filled by the Natural Gas Act.

It seems desirable to say a word with respect to the Court's recent decision in *Michigan-Wisconsin Pipe Line Co.* v. *Calvert,* Nos. 198–201, decided February 8, 1954. Although the tax there overturned as a burden on interstate commerce was described by Texas as a tax on the privilege of engaging in the "gathering of gas", the tax was really upon the interstate pipe line company which was not engaged in gathering. In addition, the case was concerned with a constitutional question and not with the interpretation of the Natural Gas Act, with respect to which the intention of Congress in enacting the particular legislation must control.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the judgment of the court below should be reversed.

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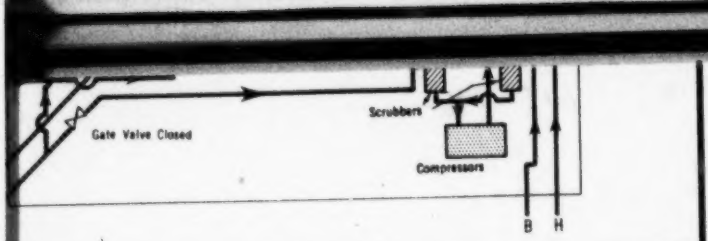

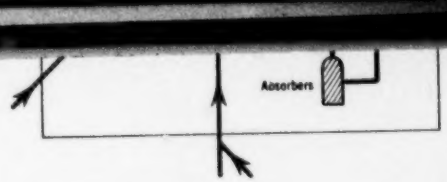

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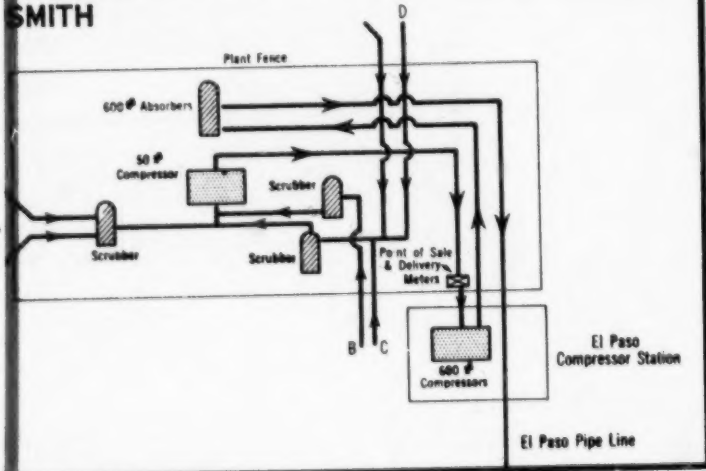

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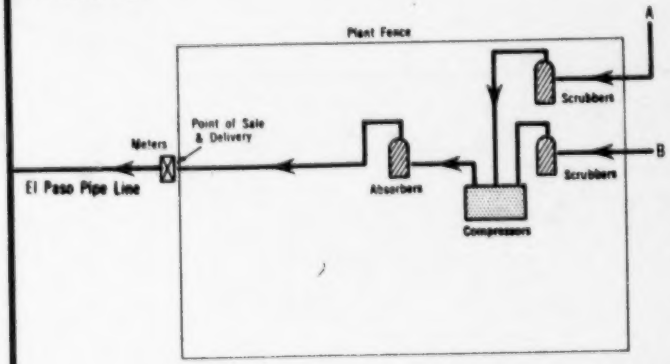

Taken from Federal Power Commission Opinion No. 217, August 22, 19

In the Supreme Court of the United States

OCTOBER TERM, 1953

No. 418

FEDERAL POWER COMMISSION, *Petitioner*

v.

STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, ET AL.

On Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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REPLY BRIEF FOR THE FEDERAL POWER COMMISSION

I

Respondents argue (Br. pp. 28, 44) that where it is established, as the Commission found, that the sales or transportation by Phillips are sales for resale or

transportation in interstate commerce, the inquiry is at an end. Acceptance of this contention would produce results wholly contrary to the language of the statute and to the clear intention of Congress as shown by the legislative history.

The statute on its face exempts production and gathering from the regulation of interstate sales and transportation. Since only interstate sales for resale and transportation were being regulated, this could only mean that when such sales and transportation occur during the course of gathering they were to be exempt.

Sales of gas destined for resale in another state are sales in interstate commerce for resale, even where made at the wellhead or otherwise made during the course of production and gathering. *Interstate Natural Gas Co., Inc.*, v. *Federal Power Commission*, 331 U.S. 682, 689; cf *Dahnke-Walker Milling Co.* v. *Bondurant*, 257 U.S. 282. Furthermore, interstate transportation of natural gas may, and does in this instance, start during production and gathering. There can be no doubt that transportation and sales at the beginning or in the middle of the gathering process were intended to be exempt. And if this is so, respondents' argument falls.

Respondent asserts (Br. p. 45) that the legislative history shows that the exemption was thought to be unnecessary. But the passage quoted indicates that this was because the matter exempted, *viz.*, production and gathering was believed *not* included in the affirmative provisions of Section 1 (b), rather than the

contrary.[1] Respondents attempt to support their position by asserting that production and gathering refer only to the physical incidents of those operations. But even if that were true, it would not sustain their contention. For production and gathering may, and frequently do, as here, involve the transportation of gas in interstate commerce. Although such transportation during the course of gathering was undoubtedly exempted, it would not be under respondents' test.

II

Respondents characterize petitioners' position as a contention "that Congress intended to leave a 'twilight zone' (or 'gap') in the regulatory process between the end of state and the beginning of federal regulation" (Resp. Br. 51). They argue that "If the judgment below is reversed the 'gap' Congress intended to close will be revived * * *" (Resp. Br. 34).

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[1] It is worthy of note that the House committee report which respondents quote in support of their contention affirmatively discloses that there was no intent to broaden the scope of the Act by the change in language. Thus, the committee report, after stating that the reference to production or gathering was not necessary, said:

> * * * but similar language was in previous bills, and, rather than invite the contention, however unfounded, that the elimination of the negative language would broaden the scope of the act, the committee has included it in this bill. * * *

It is clear that H. R. 11662, one of the previous bills referred to, did not apply to a producer or gatherer, such as Phillips, who did not operate transmission lines (see main brief, pp. 42-48; Phillips brief, p. 34, n. 27).

Nothing could be more inaccurate. The Commission has from the beginning pursued without deviation a course which foreclosed the existence of any gap in the regulation of the natural-gas industry. The new gap which respondents envisage has been created by them out of the necessities of their argument.

As this Court has often recognized, the Natural Gas Act was designed to provide for federal regulation in the area which this Court's decision had barred to the states, the area commonly described as "the gap." For reasons set forth in our main brief (pp. 56-57), we do not think that the transactions here involved fall within that gap. Furthermore, if the contrary should be assumed *arguendo,* the statute itself would close the gap. Clearly Congress did not believe and was not aware that it was creating any gap; its primary intent was to insure that there would no longer be a hiatus in regulatory power. Statutes are to be construed in the manner best calculated to carry out the purpose of the legislature [2] and to avoid extreme or absurd results. [3]

This means that, if there were any doubts as to the power of the states to regulate production and gathering, those doubts would be removed by the Natural

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[2] *United States* v. *American Trucking Assn's,* 310 U.S. 534, 543; *Harrison* v. *Northern Trust Co.,* 317 U.S. 476, 479; *Southland Gasoline Co.* v. *Bayley,* 319 U.S. 44, 47; *National Labor Relations Board* v. *Hearst Publications, Inc.,* 322 U.S. 111, 124; *United States* v. *C.I.O.,* 335 U.S. 106, 112.

[3] *Armstrong Co.* v. *Nu-Enamel Corp.,* 305 U.S. 315, 333; *Sorrells* v. *United States,* 287 U.S. 435, 447.

Gas Act itself. Congress, of course, has the power to permit the states to regulate the interstate aspects of any business. *Prudential Insurance Co.* v. *Benjamin,* 328 U.S. 408, and cases cited at p. 433 n. The exemption for production and gathering meant that Congress intended those subjects to be regulable by the states. This Court has so interpreted another part of the same exemption clause in Section 1 (b) of the Gas Act in *Panhandle Eastern Pipe Line Co.* v. *Public Service Commission of Indiana,* 332 U.S. 507, 521. Section 1 (b) provides that the Act shall apply, *inter alia,* to sales for resale, but not "to any other * * * sale of natural gas." This was held to constitute authorization for the states to regulate sales to industrial consumers —not for resale, the Court saying (p. 521):

> "The Natural Gas Act therefore was not merely ineffective to exclude the sales now in question from state control. Rather both its policy and its terms confirm that control. More than "silence" of Congress is involved. The declaration, though not identical in terms with the one made by the McCarran Act, 59 Stat. 33, 15 U.S.C. § 1011, concerning continued state regulation of the insurance business, is in effect equally clear, in view of the Act's historical setting, legislative history and objects, to show intention for the states to continue with regulation where Congress has not expressly taken over. Cf. *Prudential Ins. Co.* v. *Benjamin,* 328 U.S. 408. Congress has undoubted power to define the distribution of power over

interstate commerce. *Southern Pacific Co.* v. *Arizona,* 325 U.S. 761, 769, and authorities cited; cf. *Prudential Ins. Co.* v. *Benjamin, supra.* Here the power has been exercised in a manner wholly inconsistent with the exclusion of state authority over the sales in question."

This reasoning is equally applicable to the parallel exemption for production and gathering.

III

It is argued by *amici curiae* that regulation by the Commission of the sales of natural gas by independent producers and gatherers is essential to protect the ultimate consumers. But the legislative history of the Act, as shown in our main brief at pages 29-64, is barren of any conflict or even an intimation of conflict between the producing and gathering companies on the one hand, and consumer interests on the other. The wrath of the consumers was directed at that time solely against the abuses perpetrated by the interstate transmission pipeline companies. Subsequent changes in consumer desires, of course, have no bearing upon the intent of Congress in 1938 when it passed the Act.

Moreover, it is not to be assumed that Congress believed that state regulation of sales by independent producers and gatherers would not in the long run be advantageous to consumers throughout the country. Commissioner Murray of the Texas Railroad Commission aptly stated (R. II 429-430):

If you are going to come down here and freeze a low price, then that would work to your temporary advantage. I am saying you now are representing the consumers up there, but pretty soon—that is the one thing we ran into, the courts nearly knocked our orders out on, this flared gas, because we were ordering them to do something that they could show had to be done at a loss, and by the rise in price that has taken place in the last few years, it has made it possible for us to get this billions of feet of casinghead gas utilized.

You say your consumers are paying the bill. What is a few cents a thousand when we market that gas down here—I don't know what you pay, but a few cents a thousand isn't a very big percentage of your retail price up there. The cost of transporting it and all is so much bigger than three cents, or five cents or ten cents a thousand, and yet it means a difference down here, whether we can afford to save it and whether we can afford to drill for it and develop it. What are you going to do if we can't afford to keep on developing our gas? You'll have to double your price in order to amortize your pipe line over a short period of time and then you are out of gas.

I am representing the Railroad Commission and we are intervening in this case, but we don't stand in Phillips' shoes here and we don't expect them to accept everything we say. Heck, we have a lot

> of controversy with Phillips down here. Our duty is to the consumer. There are a devil of a lot more consumers in Texas than producers, but our duty is to see they have a supply of gas over the years, and we think we are looking after the interest of consumers in Wisconsin just as much as we are in Texas.

The entire public, including of course consumers in both consuming and producing states, is vitally interested in the conservation of gas. Just as the Commission has always recognized the valid interests of the consumers, so it has also given recognition to the problems of conservation which are of paramount interest to all, consumers and non-consumers alike. As early as 1940, a scant two years after the passage of the Gas Act, the Commission stated in its Twentieth Annual Report (page 79):

> * * * The question should be raised as to whether the proposed use of natural gas would not result in displacing a less valuable fuel and create hardships in the industry already supplying the market, while at the same time rapidly depleting the country's natural-gas reserves. Although, for a period of perhaps 20 years, the natural gas could be so priced as to appear to offer an apparent saving in fuel costs, this would mean simply that social costs which must eventually be paid had been ignored.

An abundant supply of natural gas to consumers at the lowest reasonable price can be best assured through conservation measures undertaken by the states concerned. (R. II 435.) Consequently, not only the producers but also the consumers have a stake in conserving natural-gas, a non-replaceable, wasting resource. (R. II 428-430; 459-460.)

The level of prices paid producers and gatherers is determinative of whether the business in which they are engaged will continue to exist as a healthy segment of the national economy. And this will not be accomplished at the expense of the consumers, for "the wellhead price of gas is but a fraction of the price paid by domestic consumers at the burner-tip, so that the field price * * * may have little or no effect on the domestic delivered price." *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U.S. 179, 187. Figures showing how small the proportion of field prices are to the city prices are set forth in the brief for petitioner Phillips in No. 280, pp. 87-89.

IV

Respondents suggest (Br. pp. 24, 69n) that the Commission's brief abandons the argument based upon a statement in the *Interstate Natural Gas* case, 331 U.S. 682, 690, as to the significance of possible interference with state regulatory functions in determining the scope of the jurisdiction of the Federal Power Commission. We are not aware that the argument had

been abandoned, but thought that it had been presented at pp. 82-87 of our main brief.

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No. 418

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FEDERAL POWER COMMISSION,

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v.

STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, et al.

On Petition For a Writ of Certiorari to the United States Court of Appeals For the District of Columbia Circuit

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No. 418

In the

Supreme Court of the United States

October Term, 1953

FEDERAL POWER COMMISSION,

Petitioner,

v.

STATE OF WISCONSIN, PUBLIC SERVICE COMMISSION OF WISCONSIN, et al.

On Petition For a Writ of Certiorari to the United States Court of Appeals For the District of Columbia Circuit

JOINT BRIEF IN OPPOSITION TO GRANTING OF WRIT

OPINIONS BELOW

The opinion and order of the Federal Power Commission (R. 1682-1835) with the dissenting opinion of Commissioner Buchanan is reported in 90 PUS (NS) 325. The opinion of the Court of Appeals (R. 1857-1873) is reported in 205 F. 2d 706.

JURISDICTION

The jurisdictional requisites are adequately set forth in the petition.

QUESTION PRESENTED

1. Whether Phillips Petroleum Company is a "natural gas company" within the meaning of the Natural Gas Act and subject to the jurisdiction of the Federal Power Commission to fix rates at which Phillips sells natural gas at wholesale to five interstate pipeline companies for interstate transportation and resale.

STATUTES INVOLVED

The pertinent provisions of the Natural Gas Act (15 U. S. C. 717, et seq.) are printed in Appendix A to this brief.

STATEMENT OF THE CASE

As noted in the petition (page 1 footnote 1), petitions for writs of certiorari seeking review of the judgment of the Court of Appeals sought to be reviewed here have been filed in Nos. 280 and 281 this term, and we adopt as our statement of the case here that contained at pages 2 to 4 of our brief in opposition in Nos. 280 and 281.

ARGUMENT

1. The question here is whether *Phillips Petroleum Company* is a "natural gas company" within the meaning of the Natural Gas Act and subject to jurisdiction of the Federal Power Commission to fix rates at which Phillips sells natural gas at wholesale to five interstate pipeline

companies for interstate transportation and sale for resale and *not* that stated by petitioner at petition page 7 under the heading "Reasons for Granting the Writ," where it is said the question is whether "independent producers and gatherers of gas in the field who sell directly to interstate pipeline companies at the point where gathering is complete, are, by reason of such sales, subject to regulation under the Federal Natural Gas Act."[1]

The answer to the specific question concerning Phillips depends upon the *specific* acts and transactions engaged by Phillips which include, as found by the Power Commission (R. 1712, 1740), (a) sales in interstate commerce of natural gas for resale for ultimate public consumption, and (b) transportation of natural gas in interstate commerce, both of which bring Phillips within the affirmative jurisdictional provisions of Section 1 (b) and a natural gas company as defined by Section 2 (6) of the Natural Gas Act. *Federal Power Commission v. East Ohio Gas Co.*, 338 U. S. 464, 468 (1950).

The status of the so-called "independent producers and gatherers"[2] under the Natural Gas Act, of which it is indicated there may be a large number (petition p. 7 n. 4), must depend upon the *particular facts* applicable to each,

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[1]Note the question as stated in the argument at page 7 of the petition is broader than the question as stated page 2 of petition which is specifically limited to the situaution confronting Phillips.

[2]The designation "independent producers and gatherers" is an industry-given term without special legal meaning. It describes a company that does not own or operate an interstate transmission pipeline or is not affiliated with one that does. Petition in No. 280, p. 4; petition in No. 281, p. 7. It should not be considered that because of this label activities of an "independent producer and gatherer" are necessarily confined to "production or gathering" and that it automatically follows that companies given such labels are within the provisions of Section 1(b) of the Natural Gas Act which excludes Power Commission jurisdiction over "production or gathering."

which of course are not available and cannot be passed upon in this case. It is, therefore, wrong to claim, as is claimed in the petition page 8, that the question here involved "would mandatorily bring within the Commission's jurisdiction this whole segment of the natural gas industry * * *." Even Phillips in its petition in No. 280 only says (pp. 12-13) in referring to the 2300 so-called "independent producers and gatherers" that "*presumably* some or all of the *sales*" (emphasis ours) must be regulated if the decision of the Court of Appeals here is correct.

2. The decision of the Court of Appeals here involved is in accord with prior decisions of this court and of courts of appeals which directly settle the questions here involved, and it is correct. *There is no conflict of decisions.*

The governing principle is one of constitutional law, namely, that sales of natural gas in interstate commerce for resale, are beyond the constitutional competence of the states to regulate. For that reason the sales by Phillips to the five interstate pipeline companies for resale cannot as a matter of law be included in the portion of Section 1 (b) of the Natural Gas Act (15 U. S. C. 717 (b)) excluding Federal Power Commission jurisdiction over "production or gathering." *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, 689-90 (1947).

The applicable cases of this court in addition to *Interstate Natural Gas Co. v. Federal Power Comm., supra,* are *Illinois Natural Gas Co. v. Central Illinois Public Service Co.*, 314 U. S. 498 (1942); *Federal Power Comm. v. Hope Natural Gas Co.*, 320 U. S. 591 (1944); *Colorado Interstate Gas Co. v. Federal Power Comm.*, 324 U. S. 581 (1945); *Panhandle Eastern Pipe Line Co. v. Public Service Comm.*

of Indiana, 332 U. S. 507 (1947); *Federal Power Comm. v. East Ohio Gas Co.*, 338 U. S. 464 (1950); *Panhandle Eastern Pipe Line Co. v. Michigan Public Service Comm.*, 341 U. S. 329 (1951); *United States v. Public Utilities Comm.*, 345 U. S. 295 (1953) 311.

The applicable Court of Appeal cases are *Peoples Natural Gas Co. v. Federal Power Comm.*, 75 U. S. App. D. C. 235, 127 F. 2d 153 (1942), certiorari denied 316 U. S. 700; *Interstate Natural Gas Co. v. Federal Power Comm.*, (C. A. 5) 156 F. 2d 949 (1946), affirmed 331 U. S. 682. The case before this court was given particular consideration in *State Corporation Comm. of Kansas v. Federal Power Comm.*, (C. A. 8) No. 14704, and *Northern Natural Gas Co. v. Federal Power Comm.*, (C. A. 8) Nos. 14706, 14733 and 14743, decided July 20, 1953, — F. 2d —, wherein the court said:

> "We are not in disagreement with the decision of the Court of Appeals for the District of Columbia in this Phillips Case."

3. The legislative history relied on by petitioner (pp. 9-11) consists of the DeVane statements on H. R. 11662, 74th Congress, 2d Session, a predecessor bill known as the Lea Bill,[3] which differs in important particulars from H. R. 6586, which later became the Natural Gas Act. A copy of the jurisdictional provisions of both appears at R. 1835.

This court has reviewed the legislative history of the Natural Gas Act on numerous occasions, and what it relied on (as did the Court of Appeals here) are the House and Senate Committee Reports on H. R. 6586, which be-

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[3]The Lea Bill did not include within its scope sales for resale in interstate commerce, as did the later bill which became the Natural Gas Act.

came the Natural Gas Act. *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, 689-90 (1947); *Federal Power Comm. v. Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, (1949) 502 note 2, 503 note 3, and 509 note 15.

The DeVane material on H. R. 11662 cannot properly be relied on. It was rejected by the Court of Appeals in *Interstate Natural Gas Co. v. Federal Power Comm.*, (C. A. 5) 156 F. 2d 949 (1946), because of the difference between the bills and on appeal the same material was called to the attention of this court in petitioner's brief in *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682 (1947), (see petitioner's Brief, Case No. 733, October Term 1946 p. 33-39) and was not given effect by this court in its decision.

The contentions of the Federal Power Commission as to the significance of the DeVane comments on the predecessor bill H. R. 11662 in 1946 are inconsistent with its contentions now. In the brief of the Federal Power Commission in opposition to certiorari in the *Interstate Case* (No. 733 October Term 1946) it told this court (pp. 13-14):

> "With respect to the legislative history of the Act, petitioner quotes at length from the testimony of Mr. Dozier DeVane, former Solicitor of the Federal Power Commission, in connection with predecessor bill H. R. 11662 containing different jurisdiction provisions from that enacted. We do not contend that the legislative history of a predecessor bill may not be resorted to in a proper case, if necessary, as an aid to ascertaining the intention of Congress. *It is submitted, however, that where, as here, the language of the Act is clear and the Committee reports on the final bill enacted are explicit on the questions at issue, statements of wit-*

nesses on a bill not enacted and not even reported are entitled to no weight and that therefore the court below properly relied upon the legislative history of the final bill enacted. The statements of Mr. DeVane, however, when studied in the light of the actual facts as to H. R. 11662, *not only do not support petitioner's contentions, but actually leave do doubt that sales of gas in interstate commerce for resale, even when made, as here, in the producing field, were intended to come within the jurisdiction of the Commission.*" (emphasis ours)

4. Administrative construction is erroneously relied on at pages 11-13 of the petition. The Power Commission has never adopted a uniform course sufficient to give any weight to its so-called administrative construction. The details appear in Commissioner Buchanan's dissent. R. 1801 et seq.[4] Here we need only the statement of this court in *Federal Power Comm. v. Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 516-7 note 25 (1949), as to the "uncertainty of opinion in the Commission as to the reach of the Act toward sales by independent producers and gatherers of natural-gas companies for transportation in interstate commerce." In debate on the Kerr Bill, S. 1498, Senator O'Mahoney stated that the Power Commission "has wobbled all over the face of the earth with respect to this problem." Cong. Rec. 81st Cong., 2d Sess., p. 4171.

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[4]For example, the views of the Power Commission in **Re Interstate Natural Gas Co.**, 3 F. P. C. 416 (1943) are squarely contrary to the views expressed by it in this case.

5. The petition says no decision of this court required the Commission to find coverage in this case.[1] This we deny. *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682, involved sales in the field by Interstate to three pipeline companies, each of which transported the gas so sold to markets in other states for resale for ultimate public consumption. Federal Power Commission jurisdiction under the Natural Gas Act to fix rates for such sales for resale was sustained. The court said that such sales for resale were beyond the constitutional competence of the states to regulate (pp. 689, 690, 692); that the provision in Section 1 (b) excluding Power Commission jurisdiction over "production or gathering" was to preserve in the states power to regulate in areas where the states are constitutionally competent to act. (p. 690) These principles so laid down *compel* the conclusion (whether by the Federal Power Commission or a court) that the sales in interstate commerce of natural gas for resale by Phillips here involved are not and cannot as a matter of law fall within the exemption over "production or gathering."

6. Contrary to what is suggested at page 17 of the petition, there is ample authority by this court that the jurisdictional exemption in Section 1 (b) of the Act over "production or gathering" refers to *physical* production and gathering. *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682 (1947) 690.

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[1]Petitioner refers (pp. 13-14) to the alleged "expertise" of the Commission and to its alleged expert judgment in applying the statutory standard. The determinative questions are questions of law. At the time of the decision four of the five commissioners were not lawyers. The only lawyer (Commissioner Buchanan) dissented. The staff of the Commission advised the Commission that it had jurisdiction. R. 1747. Under the circumstances any point rested on this so-called "expertise" must fall. Also such doctrine cannot be used to work a result contrary to the provisions of the Natural Gas Act, a result which petitioners here seek.

7. Contrary to what is suggested at page 17 of the petition, the sales for resale here involved fall within the regulatory gap which the Natural Gas Act was designed to fill. *Interstate Natural Gas Co. v. Federal Power Comm.*, 331 U. S. 682 (1947); *Peoples Natural Gas Co. v. Federal Power Comm.*, 75 U. S. App. D. C. 235, 127 F. 2d 153 (1942), certiorari denied 316 U. S. 700.

CONCLUSION

The decision of the Court of Appeals is correct and fully accords with the applicable decisions of this court which we have cited. There is no conflict of decisions. We submit the petition for a writ of certiorari in No. 418 should be denied.

Respectfully submitted.

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APPENDIX A

Portion of Natural Gas Act (Act of June 21, 1938, c. 556, 62 821, as amended 56 Stat. 83, 15 U. S. C. §717, et seq.) which are material to questions presented.

Section 1. (a) As disclosed in reports of the Federal Trade Commission made pursuant to Senate Resolution 83 (Seventieth Congress, first session) and other reports made pursuant to the authority of Congress, it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that Federal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest.

(b) The provisions of this act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas.

Section 2. When used in this act, unless the context otherwise requires—

* * *

(6) "Natural-gas company" means a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale.

SUPREME COURT OF THE UNITED STATES

Nos. 280, 281 AND 418.—OCTOBER TERM, 1953.

Phillips Petroleum Company, Petitioner, 280 *v.* State of Wisconsin, et al. State of Texas, et al., Petitioners, 281 *v.* State of Wisconsin, et al. Federal Power Commission, Petitioner, 418 *v.* State of Wisconsin, Public Service Commission of Wisconsin, et al.	On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit.

[June 7, 1954.]

MR. JUSTICE MINTON delivered the opinion of the Court.

These cases present a common question concerning the jurisdiction of the Federal Power Commission over the rates charged by a natural-gas producer and gatherer in the sale in interstate commerce of such gas for resale. All three cases are an outgrowth of the same proceeding before the Power Commission and involve the same facts and issues.

The Phillips Petroleum Company [1] is a large integrated oil company which also engages in the production, gathering, processing, and sale of natural gas. We are here concerned only with the natural-gas operations. Phillips is

[1] Hereinafter referred to as Phillips.

known as an "independent" natural-gas producer in that it does not engage in the interstate transmission of gas from the producing fields to consumer markets and is not affiliated with any interstate natural-gas pipeline company. As revealed by the record before us, however, Phillips does sell natural gas to five interstate pipeline transmission companies which transport and resell the gas to consumers and local distributing companies in fourteen states.

Approximately 50% of this gas is produced by Phillips, and the remainder is purchased from other producers. A substantial part is casinghead gas—*i. e.*, produced in connection with the production of oil. The gas flows from the producing wells, in most instances at well pressure, through a network of converging pipelines of progressively larger size to one of twelve processing plants, where extractable products and impurities are removed. Of the nine such networks of pipelines involved in these cases, five are located entirely in Texas, one in Oklahoma, one in New Mexico, and two extend into both Texas and Oklahoma. After processing is completed, the gas flows from the processing plant through an outlet pipe, of varying lengths up to a few hundred feet, to a delivery point where the gas is sold and delivered to an interstate pipeline company. The gas then continues its flow through the interstate pipeline system until delivered in other states.

The Federal Power Commission, on October 28, 1948, instituted an investigation to determine whether Phillips is a natural-gas company within the jurisdiction of the Commission, and, if so, whether its natural-gas rates are unjust or unreasonable. In extensive hearings before an examiner, the facts described above were developed, as well as much additional information. An intermediate decision having been dispensed with, the Commission

issued an opinion and order in which it held that Phillips is not a "natural-gas company" within the meaning of that term as used in the Natural Gas Act,[2] and therefore is not within the Commission's jurisdiction over rates.[3] Consequently, the Commission did not proceed to investigate the reasonableness of the rates charged by Phillips. On appeals, the decision of the Commission was reversed by the Court of Appeals for the District of Columbia, one judge dissenting. 92 U. S. App. D. C. 284, 205 F. 2d 706. We granted certiorari. 346 U. S. 934–935.

The Power Commission is authorized by § 4 of the Natural Gas Act to regulate the "rates and charges made, demanded, or received by any natural-gas company for or in connection with the transportation or sale of natural gas subject to the jurisdiction of the Commission . . . ." "Natural-gas company" is defined by § 2 (6) of the Act to mean "a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale." The jurisdiction of the Commission is set forth in § 1 (b) as follows:

> "The provisions of this Act shall apply to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and to natural-gas companies engaged in such transportation or sale, but shall not apply to any other transportation or sale of natural gas or to the local distribution of natural gas or to the facilities used for such distribution or to the production or gathering of natural gas."

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[2] 52 Stat. 821, as amended, 15 U. S. C. § 717 *et seq.*

[3] 10 F. P. C. 246. One Commissioner concurred in the decision and one dissented.

Petitioners admit that Phillips engages in "the sale in interstate commerce of natural gas for resale," as, of course, they must. *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, 687–689; cf. *Michigan-Wisconsin Pipe Line Co.* v. *Calvert*, 347 U. S. 157, 166–168. They contend, however, that the affirmative grant of jurisdiction over such sales in the first clause of § 1 (b) is limited by the negative second clause of the section. In particular, the contention is made that the sales by Phillips are a part of the "production or gathering of natural gas" to which the Commission's jurisdiction expressly does not extend.

We do not agree. In our view, the statutory language, the pertinent legislative history, and the past decisions of this Court all support the conclusion of the Court of Appeals that Phillips is a "natural-gas company" within the meaning of that term as defined in the Natural Gas Act, and that its sales in interstate commerce of natural gas for resale are subject to the jurisdiction of and regulation by the Federal Power Commission.

The Commission found that Phillips' sales are part of the production and gathering process, or are "at least an exempt incident thereof."[4] This determination appears to have been based primarily on the Commission's reading of legislative history and its interpretation of certain decisions of this Court. Also, there is some testimony in the record to the effect that the meaning of "gathering" commonly accepted in the natural-gas industry comprehends the sales incident to the physical activity of collecting and processing the gas. Petitioners contend that the Commission's finding has a reasonable basis in law and is supported by substantial evidence of record and therefore should be accepted by the courts, particularly since the Commission has "consistently" interpreted the Act as not conferring jurisdiction over companies such as

[4] 10 F. P. C. 246, 278.

Phillips.[5] See *Gray* v. *Powell*, 314 U. S. 402; *Labor Board* v. *Hearst Publications, Inc.*, 322 U. S. 111. We are of the opinion, however, that the finding is without adequate basis in law, and that production and gathering, in the sense that those terms are used in § 1 (b), end before the sales by Phillips occur.

In *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 505, we observed that the "natural and clear meaning" of the phrase "production or gathering of natural gas" is that it encompasses "the producing properties and gathering facilities of a natural-gas company." Similarly, in *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U. S. 581, 598, we stated that "[t]ransportation and sale do not include production or gathering," and indicated that the "production or gathering" exemption applies to the physical activities, facilities, and properties used in the production and gathering of natural gas. *Id.*, at 602–603. See also *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591, 612–615; *Peoples Natural Gas Co.* v. *Federal Power Commission*, 75 U. S. App. D. C. 235, 127 F. 2d 153; cf. *United States* v. *Public Utilities Commission*, 345 U. S. 295, 307–311.[6]

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[5] The consistency of the Commission in this regard may be questioned. Compare: Columbian Fuel Corp., 2 F. P. C. 200, with *Interstate Natural Gas Co.*, 3 F. P. C. 416; Brief for Federal Power Commission, *Interstate Natural Gas Co.* v. *Federal Power Commission*, 156 F. 2d 949, with Brief for Federal Power Commission, *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682; Federal Power Commission Order No. 139, 12 Fed. Reg. 5585, with Federal Power Commission Order No. 154, 15 Fed. Reg. 4633. See Scanlan, Administrative Abnegation in the Face of Congressional Coercion: The Interstate Natural Gas Company Affair, 23 Notre Dame Law. 173; Note, 59 Yale L. J. 1468, 1479–1484. And, for that matter, even consistent error is still error.

[6] Referring to the taking of natural gas by purchasing interstate pipeline companies at the outlet of processing plants, we recently observed that the pipeline companies obviously "are not engaged in

Even more directly in point is our decision in *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682. The Interstate Company produced or purchased natural gas which it in turn sold and delivered to three interstate pipeline companies, all the activities occurring within the same state. We noted that "[e]xceptions to the primary grant of jurisdiction in the section [1 (b)] are to be strictly construed,"[7] *id.*, at 690–691, and held that § 1 (b) conferred jurisdiction over such sales on the Federal Power Commission, stating:

> "Petitioner asserts . . . that the sales to the three pipe-line companies are a part of the gathering process and consequently not within the Commission's power of regulation. This basic contention has given rise to a great many subsidiary questions such as whether the sales were made from petitioner's 'gathering' lines or from petitioner's 'transmission' lines and whether the gathering process continued to the points of sale or was, as the Commission found, com-

'gathering gas' within the meaning of that term in its ordinary usage . . . ." *Michigan-Wisconsin Pipe Line Co.* v. *Calvert*, 347 U. S. 157, 164.

[7] The committee reports on the bill enacted as the Natural Gas Act, H. R. 6586, 75th Cong., 1st Sess., reveal that a construction of the "production or gathering" exemption which would substantially limit the affirmative grant of jurisdiction to the Commission was not contemplated. After quoting the exemptive clause of § 1 (b), the House Report states that:

"The quoted words are not actually necessary, as the matters specified therein could not be said fairly to be covered by the language affirmatively stating the jurisdiction of the Commission, but similar language was in previous bills, and, rather than invite the contention, however unfounded, that the elimination of the negative language would broaden the scope of the act, the committee has included it in this bill." H. R. Rep. No. 709, 75th Cong., 1st Sess. 3.

The Senate Report adopted and reprinted the House Report on the bill. S. Rep. No. 1162, 75th Cong., 1st Sess.

pleted at some point prior to surrender of custody and passage of title. We have found it unnecessary to resolve those issues. The gas moved by petitioner to the points of sale consisted of gas produced from petitioner's wells commingled with that produced and gathered by other companies and introduced into petitioner's pipe-line system during the course of the movement. By the time the sales are consummated, nothing further in the gathering process remains to be done. We have held that these sales are in interstate commerce. It cannot be doubted that their regulation is predominantly a matter of national, as contrasted to local concern. All the gas sold in these transactions is destined for consumption in States other than Louisiana. Unreasonable charges exacted at this stage of the interstate movement become perpetuated in large part in fixed items of costs which must be covered by rates charged subsequent purchasers of the gas, including the ultimate consumer. It was to avoid such situations that the Natural Gas Act was passed." *Id.*, at 692–693.

Petitioners attempt to distinguish the *Interstate* case on the grounds that the Interstate Company transported the gas in its pipelines after completion of gathering and before sale, and that the Interstate Company was affiliated with an interstate pipeline company and therefore subject to Commission jurisdiction in any event. This Court, however, refused to rely on such refinements[8] and instead based its decision in *Interstate* on the broader ground that sales in interstate commerce for resale by

[8] Despite the fact that they were urged by the Commission as a basis for decision. Brief for Federal Power Commission, *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682.

producers to interstate pipeline companies do not come within the "production or gathering" exemption.

The *Interstate* case is also said to be distinguishable in that it did not involve an asserted conflict with state regulation, and federal control was not opposed by the state authorities, while in the instant cases there are said to be conflicting state regulations, and federal jurisdiction is vigorously opposed by the producing states. The short answer to this contention is that the jurisdiction of the Federal Power Commission was not intended to vary from state to state, depending upon the degree of state regulation and of state opposition to federal control. We expressly rejected any implication to the contrary, in the *Interstate* case. 331 U. S., at 691–692. See *Federal Power Commission* v. *Hope Natural Gas Co., supra,* at 607–615.

The cases discussed above supply a ready answer to the determination of the Commission and also to petitioners' suggestion that "production or gathering" should be construed to mean the "business" of production and gathering, with the sale of the product considered as an integral part of such "business." We see no reason to depart from our previous decisions, especially since they are consistent with the language and legislative history of the Natural Gas Act.

In general, petitioners contend that Congress intended to regulate only the interstate pipeline companies since certain alleged excesses of those companies were the evil which brought about the legislation. If such were the case, we have difficulty in perceiving why the Commission's jurisdiction over the transportation *or* sale for resale in interstate commerce of natural gas is granted in the disjunctive. It would have sufficed to give the Commission jurisdiction over only those natural-gas companies that engage in "transportation" or "transportation *and*

sale for resale" in interstate commerce, if only interstate pipeline companies were intended to be covered.[9] See *Federal Power Commission* v. *East Ohio Gas Co.*, 338 U. S. 464, 468.

Rather, we believe that the legislative history indicates a congressional intent to give the Commission jurisdiction over the rates of all wholesales of natural gas in interstate commerce, whether by a pipeline company or not and whether occurring before, during, or after transmission by an interstate pipeline company.[10] There can

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[9] Just such wording was suggested to and rejected by the House Committee considering enactment of the Natural Gas Act, by the Chairman of the State of New York Department of Public Service, Public Service Commission. Hearings before House Committee on Interstate and Foreign Commerce on H. R. 4008, 75th Cong., 1st Sess. 146–147.

An earlier bill, H. R. 11662, 74th Cong., 2d Sess., would have limited the jurisdiction of the Power Commission to "the transportation of natural gas in high-pressure mains in interstate commerce and to natural-gas companies engaged in such transportation . . . ." Much of the legislative history advanced in support of petitioners' position was developed in connection with this bill, including the testimony of Dozier A. DeVane, Solicitor of the Federal Power Commission. Because of the much different jurisdictional provision of H. R. 11662, such testimony has little relevance here.

[10] The bill on which were held the hearings leading to the passage of the Natural Gas Act, H. R. 4008, 75th Cong., 1st Sess., as introduced provided, in § 1 (b), for Commission jurisdiction over the sale of natural gas in interstate commerce "for resale to the public." Similarly, "natural-gas company" was defined, in § 2 (5), as including a person engaged in the sale of natural gas in interstate commerce "for resale to the public." The General Solicitor of the National Association of Railroad and Utilities Commissioners suggested that the language be changed in a manner almost identical to that contained in the Natural Gas Act. Referring to the proposed changes, he commented that:

"Another is designed to make certain that the bill will apply to all intercompany sales of natural gas at wholesale, even though the sale

be no dispute that the overriding congressional purpose was to plug the "gap" in regulation of natural-gas companies resulting from judicial decisions prohibiting, on federal constitutional grounds, state regulation of many of the interstate commerce aspects of the natural-gas business.[11] A significant part of this gap was created by cases [12] holding that "the regulation of wholesale rates of gas and electric energy moving in interstate commerce is beyond the constitutional powers of the States." *Interstate Natural Gas Co.* v. *Federal Power Commission*, *supra*, at 689. The committee reports on the bill that became the Natural Gas Act specifically referred to two of these cases and to the necessity of federal regulation to occupy the hiatus created by them.[13] Thus, we are

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be from one company to another company which will resell to another corporation before the gas is finally sold to the public." Hearings before House Committee on Interstate and Foreign Commerce on H. R. 4008, 75th Cong., 1st Sess. 22.

See also *id.*, at 141–143.

[11] *Federal Power Commission* v. *East Ohio Gas Co.*, 338 U. S. 464, 472–473; *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 502–504; *Panhandle Eastern Pipe Line Co.* v. *Public Service Commission*, 332 U. S. 507, 514–521; *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, 689–693; *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U. S. 581, 599–600; *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591, 609–610; *Illinois Natural Gas Co.* v. *Central Illinois Public Service Co.*, 314 U. S. 498, 506–508.

[12] *Missouri* v. *Kansas Natural Gas Co.*, 265 U. S. 298; *Public Utilities Commission* v. *Attleboro Steam & Electric Co.*, 273 U. S. 83; *State Corporation Commission* v. *Wichita Gas Co.*, 290 U. S. 561. Cf. *Dahnke-Walker Milling Co.* v. *Bondurant*, 257 U. S. 282; *Lemke* v. *Farmers Grain Co.*, 258 U. S. 50; *Shafer* v. *Farmers Grain Co.*, 268 U. S. 189. And see *Jersey Central Power & Light Co.* v. *Federal Power Commission*, 319 U. S. 61, 69.

[13] "The States have, of course, for many years regulated sales of natural gas to consumers in intrastate transactions. The States have also been able to regulate sales to consumers even though such sales are in interstate commerce, such sales being considered local in char-

satisfied that Congress sought to regulate wholesales of natural gas occurring at both ends of the interstate transmission systems.

Petitioners cite our recent decisions in *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.*, 340 U. S. 179, and *Phillips Petroleum Co.* v. *Oklahoma*, 340 U. S. 190, as authority for the proposition that the states may regulate the sales in question here and, hence, that such sales are not within the gap which the Natural Gas Act was intended to fill. Those cases upheld as constitutional state *minimum* price orders, justified as conservation measures, applying to sales of natural gas in interstate commerce. But it is well settled that the gap referred to is that thought to exist at the time the Natural Gas Act was passed, and the jurisdiction of the Commission is not affected by subsequent decisions of this Court which have somewhat loosened the constitutional restrictions on state activities affecting interstate commerce, in the absence of conflicting federal regulation. *Illinois Natural Gas Co.* v. *Central Illinois Public Service Co.*, 314 U. S. 498, 508; *Federal Power Commission* v. *East Ohio Gas Co.*, *supra*, at 472. The Federal Power Commission did not participate in the *Cities Service* and *Phillips*

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acter and in the absence of congressional prohibition subject to State regulation. . . . There is no intention in enacting the present legislation to disturb the States in their exercise of such jurisdiction. However, in the case of sales for resale, or so-called wholesale sales, in interstate commerce (for example, sales by producing companies to distributing companies) the legal situation is different. Such transactions have been considered to be not local in character and, even in the absence of Congressional action, not subject to State regulation. (See *Missouri* v. *Kansas Gas Co.* (1924), 265 U. S. 298, and *Public Service Commission* v. *Attleboro Steam & Electric Co.* (1927), 273 U. S. 83.) The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the States may not act." H. R. Rep. No. 709, 75th Cong., 1st Sess. 1–2; S. Rep. No. 1162, 75th Cong., 1st Sess. 1–2.

Petroleum cases, the appellants there did not assert a possible conflict with federal authority under the Natural Gas Act, and consequently we expressly refused to consider at that time "[w]hether the Gas Act authorizes the Power Commission to set field prices on sales by independent producers, or leaves that function to the states . . . ." 340 U. S., at 188–189.

Regulation of the sales in interstate commerce for resale made by a so-called independent natural-gas producer is not essentially different from regulation of such sales when made by an affiliate of an interstate pipeline company. In both cases, the rates charged may have a direct and substantial effect on the price paid by the ultimate consumers. Protection of consumers against exploitation at the hands of natural-gas companies was the primary aim of the Natural Gas Act. *Federal Power Commission* v. *Hope Natural Gas Co., supra,* at 610. Attempts to weaken this protection by amendatory legislation exempting independent natural-gas producers from federal regulation have repeatedly failed,[14] and we refuse to achieve the same result by a strained interpretation of the existing statutory language.

The judgment is

Affirmed.

MR. JUSTICE JACKSON took no part in the consideration or decision of these cases.

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[14] Among the bills introduced in recent Congresses to restrict the existing jurisdiction of the Federal Power Commission over natural-gas producers are: H. R. 4051, 80th Cong., 1st Sess.; H. R. 4099, 80th Cong., 1st Sess.; H. R. 1758, 81st Cong., 1st Sess.; and S. 1498, 81st Cong., 1st Sess.

SUPREME COURT OF THE UNITED STATES

Nos. 280, 281 AND 418.—OCTOBER TERM, 1953.

Phillips Petroleum Company, Petitioner, 280 *v.* State of Wisconsin, et al. State of Texas, et al., Petitioners, 281 *v.* State of Wisconsin, et al. Federal Power Commission, Petitioner, 418 *v.* State of Wisconsin, Public Service Commission of Wisconsin, et al.	On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit.

[June 7, 1954.]

MR. JUSTICE FRANKFURTER, concurring.

While I join the opinion of the Court, one consideration leading to the Court's conclusion is for me so decisive that I deem it appropriate to give it emphasis.

Section 1 (b) is not to be construed on its face. It comes to us with an authoritative gloss. We must construe it as though Congress had, in words, added to the present text of § 1 (b) some such language as the following:

> "However, since sales for resale, or so-called 'wholesale sales,' in interstate commerce are not local in character and are constitutionally not subject to State regulation, see *Missouri* v. *Kansas Gas Co.*, 265 U. S. 298, and *Public Utilities Commission* v.

Attleboro Steam & Electric Co., 273 U. S. 83, the basic purpose of the legislation is to occupy this field in which the States may not act."

The section must be read with such an interpolation because Congress said specifically that the Natural Gas Act was designed to cover the situations which the two cited cases held to be outside the competence of State regulation. H. R. Rep. No. 709, 75th Cong., 1st Sess. 1–2; S. Rep. No. 1162, 75th Cong., 1st Sess. 1–2.*

To be sure, the *Kansas Gas* case excluded the business of piping gas by a supply company in one State to distributing companies in another; and the *Attleboro* case involved the transmission of electric current by a producing company which took it from one State to the boundary of another State and there sold it to a distributing company for resale in the other State. In this case, the sale by Phillips was made in Texas to interstate pipeline transmission companies which transported the gas for resale to distributing companies and consumers in other

*"The States have, of course, for many years regulated sales of natural gas to consumers in intrastate transactions. The States have also been able to regulate sales to consumers even though such sales are in interstate commerce, such sales being considered local in character and in the absence of congressional prohibition subject to State regulation. (See *Pennsylvania Gas Co.* v. *Public Service Commission* (1920), 252 U. S. 23.) There is no intention in enacting the present legislation to disturb the States in their exercise of such jurisdiction. However, in the case of sales for resale, or so-called wholesale sales, in interstate commerce (for example, sales by producing companies to distributing companies) the legal situation is different. Such transactions have been considered to be not local in character and, even in the absence of Congressional action, not subject to State regulation. (See *Missouri* v. *Kansas Gas Co.* (1924), 265 U. S. 298, and *Public Service Commission* v. *Attleboro Steam & Electric Co.* (1927) 273 U. S. 83.) The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the States may not act." H. R. Rep. No. 709, 75th Cong., 1st Sess. 1–2.

States. But this fact—that Phillips itself did not pipe the gas to the State boundary or directly into another State—does not in the slightest alter the constitutional applicability of the *Attleboro* doctrine to the situation before us. The fact that the continuous transmission is not by facilities of Phillips but by the facilities of Phillips connecting with pipelines transmitting gas into other States does not change the interstate character of the transaction. For that reason, the decision in *Attleboro,* 273 U. S., at 86, relying on *Peoples Gas Co.* v. *Public Service Commission,* 270 U. S. 550, barred State regulation.

It may well be that if the problem in the *Attleboro* case came before the Court today, the constitutional doctrine there laid down would not be found compelling. This is immaterial. Congress did not leave it to the determination of this Court whether an *Attleboro* situation is subject to State regulation. It wrote the doctrine of the *Attleboro* case into the Natural Gas Act and said in effect that an *Attleboro* situation was to be taken over by federal regulation and was not to be left to the fluctuation of adjudications under the Commerce Clause.

SUPREME COURT OF THE UNITED STATES

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[June 7, 1954.]

MR. JUSTICE DOUGLAS, dissenting.

The question is whether sales of natural gas by an *independent producer* at the mouth of an interstate pipeline are subject to regulation by the Federal Power Commission under the Natural Gas Act of 1938. This is a question the Court has never decided. It is indeed one on which we expressly reserved decision in *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682, 690, n. 18.

There is much to be said from the national point of view for regulating sales at both ends of these interstate pipelines. The power of Congress to do so is unquestioned. Whether it did so by the Natural Gas Act of 1938 is a political and legal controversy that has raged

in the Commission and in the Congress for some years. The question is not free from doubts. For while § 1 (b) of the Act makes the regulatory provisions applicable "to the sale in interstate commerce of natural gas for resale for ultimate public consumption," it also makes them inapplicable "to the production or gathering of natural gas."

The sale by this independent producer is a "sale in interstate commerce . . . for resale." It is also an integral part of "the production or gathering of natural gas," as MR. JUSTICE CLARK makes clear in his opinion, for it is the end phase of the producing and gathering process. So we must make a choice; and the choice is not an easy one.

The legislative history is not helpful. Congress was concerned with interstate pipelines, not with *independent producers*, as the thoughtful Comment in 59 Yale L. J. 1468 points out. If one can judge by the reports of the Federal Trade Commission that preceded the Act (S. Doc. No. 92, Pt. 84–A, 70th Cong., 1st Sess.), and the hearings and debates in Congress on the bills that evolved into the Act, little or no consideration was given to the need of regulating the sales by *independent producers* to the pipelines. The gap to be filled was that existing before the pipelines were brought under regulation—sales to distributors along the pipelines, as the opinion of MR. JUSTICE CLARK demonstrates.

That was the view of the Commission in a decision that followed on the heels of the Act. *Columbian Fuel Corp.*, 2 F. P. C. 200, 207. That decision exempted from regulation an independent producer to whom Phillips is in all material respects comparable. It was a decision made by men intimately familiar with the background and history of the Act—Leland Olds, Basil Manly, Claude L. Draper, and Clyde L. Seavey. One Commissioner, John W. Scott, dissented. That construction of

the Act by the Commission has persisted from that time (see *Billings Gas Co.*, 2 F. P. C. 288; *The Fin-Ker Oil & Gas Production Co.*, 6 F. P. C. 92; *Tennessee Gas & Transmission Co.*, 6 F. P. C. 98) down to its decision in the present case. 10 F. P. C. 246.

That construction by the Commission, especially since it was contemporaneous (*United States* v. *American Trucking Assns.*, 310 U. S. 534, 539) and long continued (*Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 513), is entitled to great weight. Other obtuse questions no less legal in character than the terms "production or gathering" of gas have been entrusted to the administrative agency charged with the regulation. See *Shields* v. *Utah Idaho Central R. Co.*, 305 U. S. 177; *Sunshine Anthracite Coal Co.* v. *Adkins*, 310 U. S. 381; *Gray* v. *Powell*, 314 U. S. 402.

There are practical considerations which buttress that position and lead me to conclude that we should not reverse the Commission in the present case. If Phillips' sales can be regulated, then the Commission can set a rate base for Phillips. A rate base for Phillips must of necessity include all of Phillips' producing and gathering properties; and supervision over its operating expenses necessarily includes supervision over its producing and gathering expenses. We held in *Colorado Interstate Gas Co.* v. *Federal Power Commission*, 324 U. S. 581, that the Commission's control extended that far in the case of an interstate pipeline company which owned producing and gathering properties. And so it had to be, if regulation of the pipelines that owned their own gas supplies was to be effective. But an understanding of what regulation entails should lead to a different result in this case. The fastening of rate regulation on this *independent producer* brings "the production or gathering of natural gas" under effective federal control, in spite of the fact that Congress has made that phase of the natural gas business

exempt from regulation. The effect is certain to be profound. The price at which the *independent producer* can sell his gas determines the price he is able or willing to pay for it (if he buys from other wells). The sales price determines his profits. And his profits and the profits of all the other gatherers, whose gas moves into the interstate pipelines, have profound effects on the rate of production, the methods of production, the old wells that are continued in production, the new ones explored, etc. Regulating the price at which the *independent producer* can sell his gas regulates his business in the most vital way any business can be regulated. That regulation largely nullifies the exemption granted by Congress.

There is much to be said in terms of policy for the position of Commissioner Scott, who dissented the first time the Commission ruled it had no jurisdiction over these sales. But the history and language of the Act are against it. If that ground is to be taken, the battle should be won in Congress, not here. Regulation of the business of producing and gathering natural gas involves considerations of which we know little and with which we are not competent to deal.

SUPREME COURT OF THE UNITED STATES

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Phillips Petroleum Company, Petitioner, 280 *v.* State of Wisconsin, et al. State of Texas, et al., Petitioners, 281 *v.* State of Wisconsin, et al. Federal Power Commission, Petitioner, 418 *v.* State of Wisconsin, Public Service Commission of Wisconsin, et al.	On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit.

[June 7, 1954.]

MR. JUSTICE CLARK, with whom MR. JUSTICE BURTON concurs, dissenting.

Perhaps Congress should have included control over the production and gathering of natural gas among the powers it gave the Federal Power Commission in the Natural Gas Act, but this Congress did not do. On the contrary, Congress provided that the Act "shall not apply . . . to the production or gathering of natural gas." Language could not express a clearer command, but the majority renders this language almost entirely nugatory by holding that the rates charged by a wholly independent producer and gatherer may be regulated by the Federal Power Commission. Nor does the Court stop there, for in the sweep of the opinion "the rates of *all wholesales* of natural gas

in interstate commerce, whether by a pipeline company or not and whether occuring before, during, or after transmission by an interstate pipeline company" are covered under the Act. P. —, *supra*. (Emphasis supplied.) On its face, this language brings every gas operator, from the smallest producer to the largest pipeline, under federal regulatory control. In so doing, the Court acts contrary to the intention of the Congress, the understanding of the states, and that of the Federal Power Commission itself. The Federal Power Commission is thereby thrust into the regulatory domain traditionally reserved to the states.

The natural gas industry, like ancient Gaul, is divided into three parts. These parts are production and gathering, interstate transmission by pipeline, and distribution to consumers by local distribution companies. A business unit may perform more than one of these functions—typically, production and gathering in addition to interstate transmission. But Phillips' natural gas operations are confined exclusively to the first part—production and gathering. It has no interstate transmission or high-pressure trunk lines and does not sell to distribution companies; and it does not, of course, distribute to the ultimate consumer. Its nine gathering systems merely bring the gas from its own and other producers' wells to its central plants in the producing fields so it can be rendered usable as fuel. Since there are no facilities for storage, the amount of gas, other than casinghead,* produced and

*Casinghead gas is produced with oil and furnishes the pressure under which the latter is brought to the surface. The gas cannot be shut off without closing down the oil production and it therefore is produced, regardless of demand, since the primary recovery is oil. If there are no available purchasers the gas is flared (burned). In some fields as much as one-third of the casinghead gas is still flared since no market is immediately available. Sound conservation practice dictates that, whenever possible, casinghead gas be used to satisfy demand before natural gas wells are turned on.

gathered each day depends on the day-to-day demands of the interstate pipelines, which in turn depend on weather and other conditions in consuming areas. Gas wells are cut on and off as the market demand for the gas requires. Gathering takes place by well pressure forcing the gas through numerous small pipes connecting each well with the central gathering plant or processing station. It is there that the gas first comes to a common "header" and is processed for use as fuel. The processing of the gas at this central gathering plant is necessary to remove hydrocarbons, hydrogen sulphide and other foreign elements in order to permit its use as fuel. The plant operates only while the wells are producing. All of Phillips' operations, including the acreage from which the wells produce the gas, the wells themselves, the lines that connect with each of them and run to the central plant, form a closely knit unit that is entirely local to the field involved. After processing, the gas is immediately delivered to the interstate pipelines under long-term sales contracts.

The Commission found that "[t]hough technically consummated in interstate commerce, these sales [by Phillips to the pipelines] are made 'during the course of production and gathering,'" and that the sales "are so closely connected with the local incidents of [production and gathering] as to render rate regulation by this Commission inconsistent or a substantial interference with the exercise by the affected States of their regulatory functions." We believe that this finding is correct and that it should be approved by the Court.

If there be any doubt that Congress thought the "production and gathering" exemption saved Phillips' sales from Federal Power Commission regulation, the Act's legislative history removes it. The Solicitor of the Commission, Mr. Dozier DeVane, at hearings in connection with a predecessor of the bill that finally became the Natural Gas Act, testified that the Federal Power Commission

would have no jurisdiction over the rates for natural gas "that are paid in the gathering field." Hearings before Subcommittee of Committee on Interstate and Foreign Commerce on H. R. 11662, 74th Cong., 2d Sess., p. 28 (1937). The bill, he said, "does not attempt to regulate the gathering rates or the gathering business." *Id.*, 34. See also, *id.*, 42–43. The bill about which Mr. DeVane testified has been described as "substantially similar to the Natural Gas Act," and his views have been treated as authoritative by this Court. *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co.*, 337 U. S. 498, 505, n. 7 (1949). See also *Federal Power Commission* v. *East Ohio Gas Co.*, 338 U. S. 464, 472, n. 12 (1950). In the face of this as well as the Federal Power Commission's adherence to the DeVane views ever since its first cases on the subject, *Columbian Fuel Corp.*, 2 F. P. C. 200 (1940), *Billings Gas Co.*, 2 F. P. C. 288 (1940), and in the absence of any specific matter in the Act's legislative history refuting the DeVane views, the Court today erroneously finds that "DeVane's testimony has little relevance here." P. —, n. 9, *supra*.

There is no dispute that Congress intended the Natural Gas Act to close the "gap" created by decisions of this Court barring state regulation of certain interstate gas sales. The legislative history of the Act refers to two decisions. *Missouri* v. *Kansas Natural Gas Co.*, 265 U. S. 298 (1924); *Public Utilities Commission* v. *Attleboro Steam & Electric Co.*, 273 U. S. 83 (1927). See H. R. Rep. No. 709, 75th Cong., 1st Sess., pp. 1–2 (1937). But these cases had nothing to do with sales to interstate pipelines by wholly independent, unintegrated, and unaffiliated producers and gatherers, such as Phillips. Neither of the companies involved in those cases was engaged exclusively in production and gathering; both were producing and transportation companies, Kansas of natural gas, Attleboro of electricity; both Kansas and Attleboro sold to

distributing companies in the course of interstate transmission. Thus, when the House Report, *id.*, 1–2, expressed the Act's aim to regulate wholesales such as "sales by producing companies to distributing companies," and immediately thereafter cited the *Kansas* and *Attleboro* cases, the Report's unmistakable reference was to sales by an integrated "producer-pipeline" to the local distributor. It could not refer to an independent producer and gatherer because, first, such an independent never sells to local distributors and, secondly, the two cited cases do not support a reference to such independents. That Congress aimed at abuses resulting in the "gap" at the end of the transmission process by integrated and unintegrated pipelines and not at abuses prior to transmission is clear from the final report of the Federal Trade Commission to the Senate on malpractices in the natural gas industry. S. Doc. No. 92, 70th Cong., 1st Sess. (1935). This report was the stimulus for federal intervention in the industry. The Federal Trade Commission outlined the abuses in the industry which the "gap" made the states powerless to prevent; the abuses were by monopolistically situated pipelines which gouged the consumer by charging local distribution companies unreasonable rates. The Federal Trade Commission did not find abusive pricing by independent producers and gatherers; if anything, the independents at the producing end of the pipelines were likewise the victims of monopolistic practices by the pipelines.

And our decisions have certainly indicated that the "gap" was at the distribution end of the transmission process. Thus, in *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591 (1944), the Court observed that "the Federal Power Commission was given *no authority* over 'the production or gathering of natural gas' " and that the producing states had the power "to protect the interests of those who sell their gas to the interstate

operator." *Id.*, 612–613, 614. (Emphasis supplied.) Five years later, in *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co., supra,* the Court said its approval of the Commission's inclusion of the cost of production and gathering facilities of an interstate pipeline in the latter's rate base "is not a precedent for regulation of any part of production or *marketing*." 337 U. S., at 506.

By today's decision, the Court restricts the phrase "production and gathering" to "the physical activities, facilities, and properties" used in production and gathering. Such a gloss strips the words of their substance. If the Congress so intended, then it left for state regulation only a mass of empty pipe, vacant processing plants and thousands of hollow wells with scarecrow derricks, monuments to this new extension of federal power. It was not so understood. The states have been for over 35 years and are now enforcing regulatory laws covering production and gathering, including *pricing,* proration of gas, ratable taking, unitization of fields, processing of casinghead gas including priority over other gases, well spacing, repressuring, abandonment of wells, marginal area development, and other devices. Everyone is fully aware of the direct relationship of price and conservation. *Federal Power Commission* v. *Panhandle Eastern Pipe Line Co., supra,* at 507. And the power of the states to regulate the producer's and gatherer's prices has been upheld in this Court. *Cities Service Gas Co.* v. *Peerless Oil & Gas Co.,* 340 U. S. 179 (1950), *Phillips Petroleum Co.* v. *Oklahoma,* 340 U. S. 190 (1950). There can be no doubt, as the Commission has found, that federal regulation of production and gathering will collide and substantially interfere with and hinder the enforcement of these state regulatory measures. We cannot square this result with the House Report on this Act which states that the subsequently enacted bill "is so

drawn as to complement and in no manner usurp State regulatory authority." H. R. Rep. No. 709, *supra*, at 2.

The majority rely heavily on *Interstate Natural Gas Co.* v. *Federal Power Commission*, 331 U. S. 682 (1947), to support their position. To be sure, there is language in that case which on its face seems to govern the present case. *Id.*, 692–693. But that case involved a materially different fact situation. The Interstate Gas Company was already subject to Federal Power Commission jurisdiction because of its interstate pipeline operations; and the company was affiliated with one of the pipelines to which it sold. In addition, the Court emphasized the fact that in *Interstate* no claim to state regulatory authority was made. Indeed, the Interstate Company had successfully resisted state attempts to regulate. Hence there was no possibility of conflict in that case; either the Federal Power Commission moved in or Interstate would have remained unregulated. But perhaps a more significant factual distinction in terms of the Court's reasoning in that case rests in the fact that of the total volume of gas Interstate sold, roughly 42% had been purchased from others who had produced *and gathered* it. This 42% was almost enough to supply all the needs of the three interstate pipelines to which Interstate sold. And the 42%, already gathered and processed, moved into and through Interstate's branch, trunk, and main trunk lines. In short, Interstate was the equivalent of a middleman between gatherers and the pipelines for almost all the gas it sold to the pipelines and performed the function of transporting the gas it purchased from other gatherers through its branch, trunk, and main trunk lines. Phillips performs no such middleman or transmission function. In addition, the late Chief Justice Vinson in that case specifically stated that: "We express no opinion as to the validity of the jurisdictional tests employed by the Commission

in these cases [*Columbian* and *Billings*, *supra*]." 331 U. S., at 690–691, n. 18. Since it was in those cases that the Federal Power Commission established the policy of declining jurisdiction over the rates charged by wholly independent producers and gatherers, it is difficult to see how *Interstate* can control the present case.

If we look to *Interstate* for guidance, we would do better to focus on the following words of the late Chief Justice:

> "Clearly, among the powers thus reserved to the States is the power to regulate the physical production and gathering of natural gas in the interests of conservation or of any other consideration of legitimate local concern. It was the intention of Congress to give the States full freedom in these matters. Thus, where sales, though technically consummated in interstate commerce, are made during the course of production and gathering and are so closely connected with the local incidents of that process as to render rate regulation by the Federal Power Commission inconsistent or a substantial interference with the exercise by the State of its regulatory functions, the jurisdiction of the Federal Power Commission does not attach." 331 U. S., at 690.

Even a cursory examination of Phillips' operations reveals how completely local they are and how incidental to them are its sales to the pipelines. Moreover, federal regulation of these sales means an inevitable clash with a complex of state regulatory action, including minimum pricing. These were matters found by the Federal Power Commission in language obviously patterned after the above quotation. The clear import of the cited words is that Federal Power Commission jurisdiction "does not attach" in such a situation.

In the words of MR. JUSTICE JACKSON, we believe "that observance of good faith with the states requires that we interpret this Act as it was represented at the time they urged its enactment, as its terms read, and as we have, until today, declared it, *viz.*, to supplement but not to supplant state regulation." *Federal Power Commission* v. *East Ohio Gas Co., supra,* at 490.